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# Funding for the National Botanic Garden of Wales

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I have prepared this report for presentation to the National Assembly under the Government of Wales Act 1998.

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## Summary

- 1** The National Botanic Garden of Wales (the Garden), which opened in May 2000, is one of the largest Millennium projects in Wales and remains an important part of the tourist infrastructure of Wales. About half of the £43.6 million capital funding to the Garden was provided by the Millennium Commission from lottery funds. The remainder of the capital funding came from a range of private and public sector sources, including £6.3 million from the European Regional Development Fund (ERDF), for which the National Assembly for Wales is accountable, £2.1 million from the Welsh Development Agency (WDA) and £1.2 million from the Wales Tourist Board (the Tourist Board).
- 2** After it opened, the Garden soon ran into financial difficulties, caused largely by higher than forecast operational expenditure, subsequently exacerbated by falling visitor numbers. It approached its existing funders for additional resources and, increasingly, sought funds from the Welsh Assembly Government, which provided over £1.5 million in short-term revenue funding. In March 2004, the Assembly Government, the Millennium Commission and Carmarthenshire County Council agreed to provide further funding to the Garden on the basis of a five year Recovery Strategy designed to secure the long term future of the Garden. All the main financial trading targets for the first year of the Recovery Strategy were met.
- 3** The Garden intended to establish itself as a visitor attraction and a centre for scientific research. Subsequently this idea expanded to incorporate start-up facilities for scientific entrepreneurs as part of its science strategy, and following discussions with the WDA. However, although a Science Centre building has been constructed at a cost of over £3 million, it remains unoccupied: very little research has taken place in it and no entrepreneurs have based themselves there.
- 4** A number of parties have contributed to the Garden project, including, of course, the Garden itself which is a registered charity and a company limited by guarantee, independent of government and not subject to audit by the Auditor General for Wales. This report, however, focuses on the decisions and actions taken by those bodies accountable for their use of public money to the National Assembly for Wales – the Welsh Assembly Government, the WDA and the Tourist Board. We use the term “the Welsh funders” to describe these organisations in this report. We looked at whether their decisions to provide funding to the Garden were well informed and whether their investments were subsequently properly protected. We conclude that:
  - a** the Garden project, by its nature, was ambitious and risky. During the capital development phase, Welsh funders carried out risk assessments and appraisals of the Garden’s business plans prior to awarding funding. However, we consider that more could have been done by the Welsh funders to mitigate and monitor the risks that they had identified;
  - b** a number of public sector bodies funded the Garden and therefore had a stake in its success or failure. However, in general, the Welsh funders focused their attention on their own, relatively small investments. During the



capital stage, some Welsh funders were part of a funders' liaison group, but this ended in mid 1997. In 2002, when the Garden was close to breaching its overdraft limit, the main funders formed a stakeholder group to seek to address the issues facing the Garden; and

- c** a number of factors lie behind the current situation in relation to the Science Centre. Indeed the Science Centre, on a much smaller scale, exemplifies many of the issues facing the overall Garden project.

Our more detailed conclusions are set out below.

### **The Garden project was ambitious in scope and has required significant additional financial support from the Assembly Government and others to keep it operational**

- 5** The idea of a botanic garden on the site of Middleton Hall at Llanarthne in Carmarthenshire dates back to 1990, but it was not until the advent of lottery funding in the mid-1990s that the project started to become a reality. The Garden's plans were ambitious: most national botanic gardens receive annual public subsidies, often substantial; the Garden planned to operate without any ongoing revenue subsidy. It forecast that it would be self-sustaining by the fourth year of its operations, with the deficits in the first three years financed through an overdraft agreed with its bank; in addition, it aimed to raise a further £2 million of private funds which would act as a contingency.
- 6** During the construction phase of the project, the Garden faced a shortfall of £1.4 million in the funding it needed to raise in order to secure an equivalent amount from the Millennium Commission. The Garden succeeded in raising nearly £1 million of this from the private sector and the Assembly Government. A further £1.8 million was realised through a lease and
- leaseback agreement with a bank, Lombard, enabling the capital works to proceed to completion.
- 7** When the Garden opened, it initially succeeded in attracting far more visitors than it had projected. However, by the second year visitor numbers had fallen slightly below planned levels with a further fall the following year. Operating expenditure in the first three years was much higher than planned, more than eliminating the initial gains from the higher visitor income. Throughout the first year and a half of operation, the Garden made a number of approaches to the Assembly Government and other bodies for additional funding, for both capital and revenue, with limited success.
- 8** In January 2002, the Garden approached the Millennium Commission and Assembly Government on the basis of a revised Business Plan, seeking an additional £5 million for capital works plus a further £750,000 in revenue support from the Assembly Government. As a result:
  - a** the main public sector funders came together in what became known as the Stakeholder Group to consider how best to proceed;
  - b** the Assembly Government provided a total of £1.57 million in revenue funding between July 2002 and October 2003 to offset immediate cashflow problems; and
  - c** the Assembly Government, the Millennium Commission and Carmarthenshire County Council worked with the Garden on a recovery plan and new funding regime.
- 9** In March 2004, the Assembly Government, the Millennium Commission and Carmarthenshire County Council provided a joint funding package of £300,000 each in the first instance as part of an agreed Recovery Strategy for the Garden.

The Assembly Government also stated its commitment to provide a further £150,000 in each of the four subsequent years – £100,000 in relation to the first of these instalments was paid in April 2005 with the remaining £50,000 due later in the autumn of that year. These measures were designed to stabilise the immediate financial position of the Garden, strengthen its management and corporate governance arrangements and to move the Garden closer to a break even position on its trading activities by 2009.

- 10** Since the Recovery Strategy was put in place, the Garden's trading position has improved. For example, it exceeded its 2004-05 targets for total visitor numbers (including functions and events), operating income and gross profit, resulting in a net trading deficit for the year that was 15.5 per cent better than forecast. It also secured an additional £470,000 in private sector funding for capital enhancement and, from 2006-07, intends to secure significant additional private sector investment in the Garden.

### Providing capital funding to the Garden project entailed a number of benefits and risks for the Welsh funders

- 11** When they considered whether or not to provide capital funds towards the Garden, Welsh public funders identified a number of benefits: the project offered the possibility of regeneration and economic development in a deprived area as well as environmental enhancement; it also helped to secure for Wales a substantial sum of Millennium Commission funding. However, providing grant funding for any project entails risks which need to be managed, and the Garden, by its nature, was a particularly risky project. Furthermore, in the four years before it opened, the Garden revised its operational plans on four occasions. The revised plans generally forecast higher income (from increased visitor numbers) and expenditure.

Although the Welsh funders carried out a range of appraisals on the applications for funding, these revisions increased the risks involved in the project. We found that, while the Welsh funders recognised the risks involved in the project, in some cases they could have done more to mitigate those risks:

- a** those involved in administering European funds analysed and fully appraised the Garden's applications prior to approving funding but did not fully address risks posed by changes to key assumptions in the Garden's business plans;
- b** the WDA stated that it took some assurance from the fact that the Millennium Commission had conducted due diligence and risk assessment of the Garden's plans, although it did not see this work at first hand. However, through its own assessments it calculated that it would get value from its investment in the project – through regeneration of the area – even if additional revenue support was needed but not forthcoming;
- c** the Tourist Board initially approved funding on the basis of a Business Plan that it considered to be viable. However, it approved further funding on the basis of a revised plan without fully assessing the effect of the changed operational forecasts; and
- d** one of the tools which can help in assessing risk is sensitivity analysis – determining the effect of changes in certain assumptions. None of the Garden's business plans seen by the Welsh funders during the capital development stage contained any sensitivity analysis, none of the Welsh funding partners requested such an analysis from the Garden nor, with one exception at the Tourist Board, did the funders conduct their own sensitivity analysis.



- 12** The Welsh funders' monitoring of the Garden project was, for the most part, limited to the specific capital grants that they had provided. Some of the Welsh funders were part of a funders' liaison group, which met during the early stages of the Garden's development, but this group stopped meeting after the middle of 1997. Although Welsh funders were effectively monitoring the grants that they had respectively paid to the Garden, we consider that there was scope for a more collective approach, given the significant public funding involved, to communicate and share information about the progress of the overall project. The funders also attached conditions to their grants under which monies might be reclaimed. However, in the event that the Garden had gone into administration, in practice clawback would have been difficult, not least given the position of other secured creditors.
- 13** The need to share information applies equally to the operational phase of the project, after the capital work had been largely completed. Despite a number of warning signals from the Garden, and notwithstanding the presence of representatives from Carmarthenshire County Council and the Millennium Commission on the Garden's Board of Trustees (in the latter case as an observer), the other Welsh funding partners were not fully and equally aware of the financial problems of the Garden until April 2002, nearly two years after it opened. And it was then only through the joint efforts of the major funders of the project that a medium-term recovery plan acceptable to all the parties could be put in place a further two years later.
- The Garden's Science Centre remains unoccupied over three years after the building was constructed**
- 14** Like other national botanic gardens, the Garden aimed to be a centre for research as well as a visitor attraction. Unlike other botanic gardens in the United Kingdom, the Garden's scientific activities were planned to require no government subsidy and would be partly funded by surpluses from the visitor attraction. By 1998, the planned use of the Science Centre had expanded to incorporate twelve specialist incubator units as a commercial start-up facility for scientific entrepreneurs, later known as the BioTechnium. The BioTechnium venture attracted further grant support from the European Structural Funds and the WDA – in the latter's case as it aligned with its promotion of a network of Techniums throughout Wales.
- 15** The costs of constructing the Science Centre were £3.2 million. However, the remaining budget for scientific equipment for the Garden's research team, £1.4 million, was initially reduced to £1 million and subsequently to zero owing to the perceived pressing need to improve the visitor attraction. This decision had implications for the BioTechnium, as the Garden had recognised that the operation of its own, in-house research facility was an important factor in attracting scientific entrepreneurs to rent space in the incubator units.
- 16** In 2002, the Garden approached the WDA to take over ownership of the whole Science Centre, including the BioTechnium. The proposal included renting back to the Garden the parts of the building it needed to carry out its own research. However, the WDA has not yet taken over ownership. Despite this approach, the Garden continued with the initial appointment of management and marketing staff for the BioTechnium, attracting £95,000 ERDF grant aid to cover eligible expenditure
- 17** Since the Science Centre's construction in 2002, it has remained unoccupied. The WDA, which remains committed to making a success of the BioTechnium concept, has provided some

financial assistance towards essential maintenance costs. The failure to deliver an operational Science Centre illustrates a number of risks inherent to grant providers, such as:

- a trying to support too soon the establishment of a facility requiring subsidy from unproven revenue streams, in this case surpluses from the visitor attraction;
  - b the lack of an up-to-date plan which incorporates all aspects of the business and their costs; and
  - c not having surety of funding for all elements without which the whole scheme would founder – in this case the provision of the Garden’s own scientific research programme, seen as essential for the success of the incubator units.
- a **test, through, for example, sensitivity analysis, the impact on the financial viability of the project of variations to the operational forecasts of applicants; and**
  - b **require applicants to include details of contingency arrangements in the event of forecasts not being realised.**
- ii Additional match funding was provided to the Garden on the basis of revised business plans without fully assessing the reasons behind, and the risks posed by, substantial changes to, in particular, visitor number, income and expenditure forecasts. **In future, Welsh public funders should identify and assess changes to business plans of large capital projects, when they are in the capital development stage, or when ongoing revenue funding is being provided.**

## Recommendations

### Assessing and addressing risks

- i The Garden’s original business plan was ambitious; unlike most botanic gardens, the Garden would be self sustaining – funded entirely through visitor income and sponsorship – and would require no public subsidy. On just one occasion did any of the Welsh funders carry out a sensitivity analysis of the Garden’s business plans. It would have been prudent for Welsh public funders to assess the possible impact of any variations to test the key assumptions underpinning the financial viability of the project, such as the consequences of not achieving visitor numbers, lower than expected income, or higher than forecast expenditure. **In future, before providing funding for large capital projects judged to be of high risk which are intended to meet their own ongoing revenue costs, Welsh public funders should:**

### Working collaboratively

- iii Although individual funders were funding discrete capital projects, they shared the goal of creating a successful revenue generating operation that created jobs and contributed to economic development. However, Welsh public funders did not adequately collaborate to share information about the Garden’s operational planning and performance, with the result that they had different information about which plan the Garden was working to, and were not fully and equally aware of the extent of the problems until the Garden had reached crisis point. **In future, where a number of Welsh public bodies are providing funding to the same project, they should, as far as is practicable, share information and collaborate to, for example:**



- a assess the operational viability of projects they are considering funding; and**
- b ensure that during the construction phase of projects, progress is monitored and any changes to business plans are assessed.**

#### Science Centre

- iv** The Science Centre remains unoccupied and continues to incur maintenance costs which are being partially met from public funds. **Welsh public funders should, where appropriate, work with the Garden to resolve the ongoing issues of the Science Centre.**



## Part 1: The Garden project was ambitious in scope and has required significant additional financial support from the Assembly Government and others to keep it operational and to provide a platform for its sustainable future

**1.1** The National Botanic Garden of Wales (the Garden) is one of the largest Millennium projects in Wales. It was opened in May 2000 as a scientific institution dedicated to “conservation, horticulture, science, education, leisure and the arts”. The Garden is situated on 568 acres in Llanarthne, Carmarthenshire and comprises landscaped grounds, walled gardens, ornamental woodlands, restored lakes, shop, restaurant, theatre and exhibitions. One of the Garden’s main attractions is its Great Glass House, the world’s largest single span oval glass house, designed by Sir Norman Foster. The Garden also contains a Science Centre built to house facilities for botanical research, including

incubator units for start-up science enterprises, which is not currently operational.

**1.2** The Garden is a registered charity and a company limited by guarantee. It has a Board of Trustees who are also Directors of the Company. About half of the £43.6 million capital funding to the Garden was lottery money provided by the Millennium Commission. The remainder of the capital funding came from a range of sources, including the European Regional Development Fund, the Welsh Development Agency (the WDA) and the Wales Tourist Board (the Tourist Board) – [Figure 1](#).

**Figure 1: Sources of capital funding for the Garden**

Source of funding	Planned funding (Business Plan May 1996) £m	Funding committed (December 2004) £m
Millennium Commission	21.7	22.2
European Regional Development Fund*	7.5	6.3
Carmarthenshire County Council	2.5	2.4
Welsh Development Agency	2.5	2.1
Wales Tourist Board	0.3	1.2
Other public bodies	0.5	0.3
<b>Sub-total</b>	<b>35.0</b>	<b>34.6***</b>
Private sector**	8.4	9.0
<b>TOTAL</b>	<b>43.4</b>	<b>43.6***</b>

\* The National Assembly, and previously the Welsh Office, is the accountable body for this funding

\*\* This includes contributions from charities, funding generated by the Garden itself, landfill tax credits, a leaseback scheme (see paragraph 1.15), and contributions in kind

\*\*\* The figures do not correspond with the total because they have been rounded to the nearest £100,000

Source: *Wales Audit Office*



## Scope and methodology

**1.3** This report focuses on the actions of those organisations accountable to the National Assembly for Wales – the Assembly Government itself (including the Welsh European Funding Office, WEFO, which administers the European Regional Development Fund) and its predecessor, the Welsh Office; the WDA and the Tourist Board. We refer to these bodies in this report as “the Welsh funders”. The Garden itself is not subject to audit by the Auditor General for Wales, while the Millennium Commission is audited by the Comptroller and Auditor General on behalf of the Westminster Parliament.

**1.4** This part of the report sets out how the Garden project came into being, how it fared in the initial years after opening and the actions of the Assembly Government once the Garden turned to it for financial support in January 2002.

■ **Part 2** of the report considers in detail the decisions by the Welsh funders to finance the project, whether those decisions were soundly based and how well the attendant risks were managed.

■ **Part 3** of the report examines the Science Centre which forms part of the overall project but sits outside the main Garden visitor attraction.

**1.5** In carrying out our examination, we interviewed officials from the Assembly Government (including WEFO), the WDA and the Tourist Board and conducted an extensive review of the documents held by those bodies relating to this project. We spoke to officials from the Millennium Commission and Carmarthenshire County Council. We visited the Garden and interviewed those currently involved in running the project; the Garden has also provided further information on request. And, for comparative purposes, we visited the Eden project in Cornwall.

## The concept of a botanic garden on the Middleton Estate in Llanarthne was first put forward in 1990

**1.6** A “concept appraisal” for a national botanic garden at Middleton Hall, Llanarthne, Carmarthenshire, was first developed in 1990, by the Royal Botanic Gardens, Kew, on behalf of Dyfed County Council and the Welsh Historic Gardens Trust. Middleton is a late-eighteenth-century country estate that was primarily used for agriculture, the old Middleton Hall having burnt down in the 1930s. The site offered a number of benefits to a botanic garden, such as its varied topography and associated microclimate, and relative freedom from pollution. The garden envisaged would blend the traditional and the contemporary to create “an innovative national institution serving horticultural and botanical science, and above all the people of Wales”.

**1.7** A feasibility study in 1991 by a team of consultants, commissioned by the project sponsor, estimated the capital costs of the project at £18.75 million with a projected annual deficit of £800,000, based on visitor numbers reaching 378,000 a year. Although the Welsh Office agreed in principle to Wales having its own botanic garden it decided that, even if the Garden were to secure the necessary capital funding, the continued deficit would not justify the Welsh Office’s support. The Welsh Office also considered that visitor projections were too high, approaching one third of those of Kew.

**1.8** In 1993, the Welsh Office commissioned its own feasibility report, led by Eres, a Cardiff-based group of consultants, into a national botanic garden for Wales. The consultants identified four potential sites in Wales which best matched their criteria: Middleton; Bute Park in Cardiff; Clyne Country Park in Swansea; and Penhein in Monmouthshire. The report concluded that no

one site emerged as a clear winner – each was found to have its own strengths and weaknesses. In Middleton’s case, its strengths were the organisation behind it and its historical connections on a pollution-free site; its main weakness was perceived to be its uncompetitiveness in terms of attracting visitors and therefore its ability to generate income – consequently it was the option with the largest forecast annual operating deficit. The key financial data relating to each site are shown in Figure 2.

## The lottery made the project possible

**1.9** After the Eres report was published, the Welsh Office decided that it would not alter its original standpoint: although it was in favour of having a national botanic garden in Wales, it was not prepared to provide the capital and revenue funding that such a project would need. Instead, the Welsh Office advised the four sites of the availability of lottery funding from the then newly formed Millennium Commission – see box.

### The Millennium Commission

The Millennium Commission was established in 1993 as a distributor of proceeds from the National Lottery. The organisation was to operate only in the short term to fund projects to “celebrate the end of the second millennium and the start of the third”. The Commission provided capital funding to innovative projects that would not normally be supported by public funds.

Projects applying for funding were assessed against the following criteria: they should:

- enjoy public support and be for the public good
- make a substantial contribution to the life of the community they were designed to serve
- have sufficient support from public and/or private sector to match lottery funds
- be a viable concern once the Commission element of funding was complete
- demonstrate high standards of design and architecture
- be operational within a certain timeframe
- have a management team to lead the project to completion, and satisfactory plans for the management of the project upon completion

Figure 2: Sources of capital funding for the Garden

	Middleton	Clyne	Bute Park	Penhein
Capital costs £m	22	22	17	23
Projected visitor numbers by 2004-05, 000s	60-180	195-230	305-360	540-555
Annual operating profit/(deficit) £m	(1.3)	(1.25)	(0.6)	0.1
Net present value over 40 years £m	-35.8	-35.1	-24.1	-22.0

Source: Wales Audit Office



**1.10** Of the four sites shortlisted from the Eres report, Middleton had the most developed organisation behind it, enabling it to apply for the Millennium Commission's first round of funding in 1995. In the event, none of the other three sites applied for Millennium Commission funding<sup>1</sup>, leaving Middleton with little competition from other bidders for a national botanic garden. Middleton also benefited from the prospect of European Regional Development Fund (ERDF) funding (see paragraphs 2.5 to 2.7), and the Welsh Office's decision to bring forward the creation of the A48 interchange leading to the Garden within its transport programme, in response to the Millennium Commission's stipulation that the Garden have improved access in order for it to consider providing any funding. Middleton had

also secured "in principle" approval for funding from the WDA (paragraph 2.20) and the Tourist Board had confirmed that "in principle" the Garden was eligible to apply for funding (paragraph 2.24).

### The Garden's business plan was ambitious

**1.11** In February 1996, the Millennium Commission announced that it would be prepared, subject to further negotiations, to award a grant to establish the Garden. The Garden's revised business plan, finalised in May 1996, assumed an opening in May 2000. The key elements are set out in [Figure 3](#) below<sup>2</sup>.

**Figure 3: Forecasts in the May 1996 Plan for the year 1 (2000) and year 5 (2004) of operation**

Planning assumption	2000	2004	Notes
Visitor numbers (000s)	100	200	Based on an average penetration rate of 2% of the 10 million residents and tourists within 2 hours of the site
Visitor income £000	600	1,500	Includes admission fees, guidebooks, catering and merchandise. Other income, mainly from functions and events, was forecast to be £300,00 a year by 2004
Total expenditure £000	1,201	1,446	Includes cost of sales, salaries and other overheads
Net deficit from science £000	244	134	Income generated from commercial activities, offset by salaries and overheads
Net surplus/(deficit) before interest £000	(715)	321	2003 – the fourth year of operations – was the first when the project was expected to generate surplus. However, the cumulative deficit at this point was forecast at £1.36 million

\* Much higher than previous estimates as it now included the Great Glass House

Source: *Middleton Botanic Garden Business Plan, May 1996*

1 The Buckland Trust in Brecon also applied for Commission funding for a botanic garden, but unsuccessfully.

2 All forecast data in this report are as presented in the original documentation, unadjusted for inflation.

**1.12** Under the Garden’s May 1996 business plan, the operating deficit in the first three years would be financed by an overdraft agreed with its bank which, at the time, had confirmed that it was willing to consider funding the deficit. After this point, annual income would exceed expenditure and the Garden would be self-sustaining. The plan also stated that the trustees were aiming to raise an additional £2 million of private funds, not included in the detailed costings above. These funds would act as a contingency and would be in addition to the £8.4 million contribution from the private sector to the capital costs of the project (see Figure 1). The funds would be used to help cover the initial cash deficit in early years and to provide a cushion against any unforeseen expenditure during development. The Garden also forecast that a “sinking fund” of £1.082 million would be available at the end of the capital phase, representing unused capital funding. The Garden planned that this money would only be used for unforeseen maintenance costs, in the early stages of the project, and ongoing enhancement of both the landscape and entertainment features.

**1.13** The assumption in the Garden’s business plan – that it would not require ongoing public revenue support funding – was ambitious. Most national botanic gardens receive some form of public funding. The Royal Botanic Gardens, Kew and the Royal Botanic Gardens, Edinburgh receive substantial grant-in-aid from government departments to reflect their status as non-departmental public bodies – see Figure 4. The Eden project in Cornwall is a well-known example of a project that does not rely on ongoing revenue public subsidy. However, it is markedly different in scope and objectives from the Garden and does not lend itself readily to direct comparisons. For example: the Eden project is on a much larger scale than the Garden, with initial capital costs of £86 million, compared with £43 million for the Garden; the

Eden project is built on reclaimed clay pits and is entirely new, whereas the Garden includes restoration of an old estate; and the Eden project styles itself as the “first Rock ‘n Roll Scientific Foundation”, rather than a botanic garden. In addition, Cornwall has a much more developed tourism market than Carmarthenshire.

**Figure 4: Government subsidies for national botanic gardens (2003-04)**

Garden	Level of government support £m	Proportion of operating cost
Royal Botanic Gardens, Kew	24.8	71%
Royal Botanic Garden, Edinburgh	7.0	75%

Note: The subsidies for both Kew and Edinburgh include funding for scientific work that is undertaken under a “remit” to the Department for Farming and Rural Affairs and the Scottish Executive respectively.

Source: Wales Audit Office

### The Garden had to take steps to deal with capital funding shortfalls before it opened in May 2000

**1.14** The Garden and the Millennium Commission agreed that the project should be developed in phases to reflect the match funding available (see Appendix 3). The first phase included works funded by ERDF, the WDA and the Tourist Board and was completed successfully on time in September 1998. However, although it had raised further funding, including a second grant from the Tourist Board (see paragraph 2.25) for the next phase, the Garden faced a shortfall of £1.4 million in the match funding it needed to secure an equivalent amount from the Millennium Commission, making an overall potential shortfall of £2.8 million, with consequent implications for the quality of the visitor experience when the Garden opened.



**1.15** The Garden adopted a two-pronged approach to making up this shortfall. First, it secured £400,000 from private sector sources and £500,000 from the Assembly Government, to be routed through the Tourist Board; more details on this funding are at paragraph 2.31. Secondly, the Garden entered into a leaseback agreement with a commercial bank, as did several other Millennium Commission projects, such as the Eden Project, realising a further £1.8 million – see box. This move, in addition to the extra funding that had already been secured, eliminated the funding shortfall for Phase 2 and put the Garden in a favourable position for the development of Phase 3.

### Leaseback agreement

In May 2000, the Garden entered into a lease and leaseback arrangement with Lombard Property Facilities Limited (LPF, part of the Royal Bank of Scotland Group). The deal was complicated but its main features were that the Garden granted an underlease to LPF of part of the Middleton Hall estate, including the Great Glasshouse, for a premium of £11.1 million and a peppercorn rent; the same area was rented back to the Garden by LPF (via a sub-underlease). Of the £11.1 million it raised from the underlease, the Garden:

- used £1.8 million to match fund Millennium Commission money;
- deposited £8.3 million in a bank account which, through the accumulated interest, will grow to £10.1 million – the agreed price for the Garden buying back the underlease after ten years; and
- expended the remaining £1 million in fees.

The mutual economic benefits of the agreement arise as a result of the capital tax allowances claimed by LPF which were not available to the Garden, as a charity.

### After opening the Garden faced falling income and expenditure higher than forecast

**1.16** The Garden opened in May 2000. In its initial years of operation, operating expenditure was much higher than planned. While it succeeded initially in attracting far more visitors than projected in its most recent (October 1998) forecasts, visitors then began to fall and, by the third year of operations, both visitor numbers and income were below planned levels. This was partly due to the impact of foot and mouth disease from February 2001, which caused the Garden to close for a period and had a severe impact on tourism across west Wales. Figure 5 sets out the differences between planned and actual income and expenditure (the latter from the audited accounts) in the first three years of the Garden's operation

Figure 5: Comparison between planned and actual Garden performance

	year 1	year 2	year 3
<b>Visitor numbers (000s)</b>			
October 1998 forecast	175	200	225
Actual	204	192	147
Variance	+17%	-4%	-35%
<b>Total income £000</b>			
October 1998 forecast	1,601	1,839	2,158
Actual	1,958	2,176	1,757
Variance	+22%	+18%	-18%
<b>Operating expenditure £000</b>			
October 1998 forecast *	1,627	1,855	2,106
Actual	2,529	2,608	2,468
Variance	+55%	+40%	+18%

\* Salaries, overheads and costs of sales

Note: Business Plan years are calendar – year 1 is 2000; actual years taken from the accounts run from April to March – year 1 ends 31 March 2001

Source: Wales Audit Office analysis

**1.17** Against the background of operating expenditure far exceeding income and the Garden not having raised additional income from the private sector to act as a contingency, the Garden made a number of approaches to the Assembly Government and other bodies to secure further funding:

- a** In October 2000, five months after opening, the Garden approached the Assembly Government for £1.2 million in revenue funding, to be paid over two years, to develop and secure the science and education programmes. The construction of the Science Centre was yet to begin and the Garden could not employ the staff needed to run it. This request was turned down.

In February 2001, the Institute of Welsh Affairs published a report, *An Icon for Modern Wales*, highlighting the outcome of a one day conference held in June 1998 about the wider benefits the Garden could bring Wales. The report also considered the expert opinion of representatives from the Tourist Board, the WDA, Carmarthenshire County Council and the Garden. One of the report's recommendations was that the Assembly Government seriously consider annual grant-in-aid to the Garden to illustrate its commitment to investing in research and development in Wales.

- b** In May 2001, the Garden presented a funding request for £622,000 a year for ongoing revenue support to the Assembly's Economic Development Committee. The Chair of the Committee subsequently wrote to the First Minister, indicating that the Committee was supportive of the project but that any financial support could be offered only on the basis of a sound business plan. The Assembly Government told the Garden that it could not consider such a request

unless it submitted a full supporting business plan.

- c** In July 2001, the Garden approached the WDA and the Tourist Board for £150,000 and £191,000 respectively for various capital works. These bids were not progressed because the applications lacked detailed costings and required further clarification and development.
- d** In July 2001, the Garden met the Minister for Culture, Sport and the Welsh Language (whose portfolio now included the Garden project), to request £1.7 million for completion of the capital development programme in time to meet a Millennium Commission deadline of 1 September. At the same time, the Garden sought a further £750,000 in annual revenue funding for science, education and the running costs of the Garden. The Assembly Government continued to reiterate the need for a comprehensive, up-to-date Business Plan before it could consider acceding to such requests.

- 1.18** Against the background of mounting financial difficulties, the Garden revised its business plan. Based on its revised plan, in January 2002 the Garden sought an additional £5 million capital investment to improve the visitor experience, with a view to generating both increased levels of visitors (to 285,000 a year) and visitor spend. The bulk of this additional funding was sought from the Millennium Commission and Assembly Government, at £2.15 million each. At the same time, the Garden also reiterated its earlier request to the Assembly Government for £750,000 for its science and education programmes for a period of three years, after which the Garden would fund these activities. The revised plan continued to forecast that the Garden would generate an operating surplus by



year 3 (ending March 2003), with the cumulative deficit eliminated by year 5. In view of the level of funding being sought, the Assembly Government, together with the other main funders, subsequently took a more active role to determine the problems facing the Garden and to find ways of ensuring its long-term viability.

## From January 2002, the Assembly Government and the other main funders took a proactive role in considering the Garden's problems

**1.19** The Millennium Commission, while acknowledging that the Garden's revised plan had certain merits, responded that its ability to provide further assistance to projects was extremely limited and that the Garden had provided insufficient detail and evidence of research to demonstrate the deliverability of its revised plan. The Assembly Government and other funders took a similar view and declined to provide the funding sought by the Garden. However, in recognition of the importance of the Garden to Wales, particularly west Wales, in terms of its economic impact and scientific and educational potential, it took steps to put the Garden on a sound financial footing. In addition to devoting more of its own staff resources to the issue, in April 2002 the Assembly Government brought together the existing funders to consider how best to proceed. It provided short-term revenue funding to keep the Gardens open whilst long-term solutions were sought, and agreed with the Garden a recovery plan and new funding regime. Each of these issues is considered in more detail in the following paragraphs.

**1.20** The Assembly Government brought all the public sector funding partners – including the Millennium Commission, the WDA, the Tourist Board and Carmarthenshire County Council –

together with the Garden in what subsequently became known as the Stakeholder Group. The purpose of the group was to consider collaboratively ways in which stakeholders could assist the Garden. In addition, the Assembly's Accounting Officer communicated with relevant Assembly-sponsored Public Bodies to inform them of the Garden's financial position and what action they should take in relation to grant payments. The Group's intention was to secure a coordinated approach to dealing with the issues around the Garden. It met regularly to discuss the Garden's financial situation and consider better ways of taking forward the Garden's plans. It was during these meetings that all funding partners began to gain an equal understanding of the Garden's financial position, where previous public sector funding was allocated, and why further public support was needed.

**1.21** The group's objective was to work with the Garden on stabilising its operations in the short term, by improving the visitor experience and thus generating more income. Only then could the Garden begin to work with the Assembly Government on its longer-term development and, ultimately, its education and science plans. The funding partners were also keen to introduce better managerial and financial control in the Garden as this had been a universal concern.

## The Assembly Government provided a series of short-term, revenue funding packages totalling £1.57 million to support the operation of the Garden

**1.22** In June 2002, the Garden predicted that its overdraft limit would be breached towards the end of July unless the Assembly Government provided an immediate cash injection to help offset cashflow problems and to sustain and

develop the facility. After much consideration, particularly around the funding partners' concerns regarding the Garden's management, the Assembly Government agreed to provide short-term funding of £360,000, subject to strict conditions. This funding was designed to help the Garden with operational costs, while a major review of its financial situation was carried out.

**1.23** One of the conditions was that the Tourist Board, as the Stakeholder Group representative, would attend full meetings of Garden's Trustees as an observer. Another condition imposed by the Assembly Government was that consultants (KPMG) undertake a review of the position of the Garden and advise the Assembly Government on the potential for it to become self-financing. The Assembly Government took the view that no new Assembly-sponsored public body funding for capital works should be approved until the outcome of the report was known.

**1.24** KPMG reported in December 2002, concluding that the Garden needed an immediate cash injection of over £3 million to meet its current creditor commitments, including its overdraft of £2 million. The report also examined the Garden's likely future financial requirements under four scenarios – see [Figure 6](#). Each of the scenarios required significant public subsidy in perpetuity.

**1.25** Following consideration of the KPMG report, the Assembly Government made clear its position that it would not fund the Garden in perpetuity. Nevertheless, the Assembly Government remained committed to exploring alternative options to secure the future of the Garden. In January 2003, the Assembly Government made another grant to the Garden of £1.06 million for ongoing operational costs and to enable the Garden to draw down Millennium Commission funds. The funding was agreed on the basis that the Garden would produce an updated business plan within six months that would demonstrate how it might achieve self-sustainability. This Plan, submitted in May 2003, identified three key areas for action in order to make the Garden viable: the development of the organisation and the people within it; a further £8 million investment over three years in the facilities; and the development of a comprehensive marketing strategy (following consultants' advice, the Garden had at this point also decided to make more of the geographical locator, "Middleton" in its branding, in line with other botanic gardens such as Kew). These moves were predicted to lead to 250,000 visitors a year by 2008-09, spending over £10 each. The plan forecast that, on this basis, the Garden would break even, before interest, tax and depreciation and excluding the science programme, by 2008-09.

**Figure 6: Business models outlined in KPMG report**

	Option 1	Option 2	Option 3	Option 4
Scenario	Status quo	Operational enhancement	As option 2, with improved capital project	As option 3, with free admission
Total funding support required to March 2009 £m	7.25	8.85	11.09	17.79

Source: KPMG report, 2002



**1.26** The Assembly Government was unconvinced that investment in the revised Business Plan was likely to lead to a sustainable and secure future for the Garden<sup>3</sup>, nor that it would represent value for money. It considered a number of alternative options, including a full rescue package where the Garden became a national institution with free admission. In October 2003 the Assembly Government provided the Garden a further short-term funding package of £150,000, alongside the same amount from Carmarthenshire County Council and £50,000 from the Millennium Commission, to support essential running costs. The Millennium Commission also indicated that it was prepared for its enhancement grant of £600,000 awarded in July 2003 for work on the double-walled garden to be used for other capital works if this improved visitor income. At this stage, the financial position of the Garden was critical: visitor numbers for the year were forecast at 120,000, and the Garden had debts of some £2.8 million. To alleviate the situation the Garden made 76 staff redundant, leaving only a skeleton of 18 and remaining operational only by the extensive use of volunteers.

**1.27** In November 2003, the Garden submitted a Recovery Strategy to the Assembly Government, proposing an extra £3 million in funding to keep the Garden open until 2009 (£1 million of this was to secure the immediate future of the Garden). However, following consideration of the Recovery Strategy, on 10 December in a published letter to the Garden, the Minister for Culture, Welsh Language and Sport stated that the Assembly Government would not provide the funding requested, on the grounds that the Recovery Strategy was no more than a lower cost version of the business plan submitted to the Assembly Government in May 2003 and was “still based on the premise that the Assembly

Government gives an underlying assurance to underwrite the future operation of Middleton through the provision of an ongoing and substantial revenue subsidy from public funds”.

The day before the Minister’s announcement, a Board Member of the Wales Tourist Board published a report on the outcome of a two-day thinktank to examine the future of the Garden. Attending the thinktank were those with experience in attractions management, financial and organisational matters, science and healthcare. Among the report’s conclusions was that the current visitor proposition was extremely weak, and that the proposals by the Trustees for improving the product were unlikely to achieve their objectives. Accordingly the Group felt that the Garden was unlikely ever to break even and that a different approach was required if public access to the site was to be retained.

**In March 2004, the Assembly Government, Millennium Commission and Carmarthenshire County Council agreed to support a five-year Recovery Strategy for the Garden**

**1.28** Following the Minister’s announcement to provide no further funding, the Garden commissioned PricewaterhouseCoopers LLP to redefine and rework the Recovery Strategy. After intensive effort by all parties, on the basis of the revised Recovery Strategy, in March 2004, the Assembly Government, the Millennium Commission and Carmarthenshire County Council provided a joint funding package to help stabilise the Garden, with each undertaking to give £300,000 in 2004-05. In addition, the Assembly Government stated its commitment to provide a further £150,000 in each of the four

<sup>3</sup> A view shared in a risk assessment of the plan carried out by Carmarthenshire County Council, which concluded that “the ambition to achieve financial breakeven by 2008-09 is overly optimistic given the associated challenges in increasing visitor numbers”.

Figure 7: Key features of the Recovery Strategy

- Improved marketing activities, including partnership, to sustain the recovery
- Active support from and collaboration with stakeholders
- Strengthened corporate governance
- Strengthened management, including financial management
- Further capital enhancements, utilising up to £1.3 million of the remaining Millennium Commission grant
- The repayment of all debts within the period of the plan, including both secured and unsecured creditors
- Property development utilising peripheral and non-essential assets to generate income

**The intention is that, by 2009:**

- Annual paid entry visitor numbers will have increased by 27 per cent, from a planned 110,000 in 2004-05 to 140,000 in 2008-09
- Other forms of annual income, including secondary spend (such as catering) and fundraising, will have increased by 75 per cent
- Income principally from property realisations will have ensured that all debts have been paid
- The deficit on trading activities from the visitor attraction will have reduced to a sustainable level which can be met from reserves, providing a strong platform for the future

subsequent years – the first of these instalments is being paid in 2005. The main features of the Recovery Strategy are set out in [Figure 7](#).

### In 2004-05, the Garden achieved its Recovery Strategy targets

**1.29** Visitor numbers in 2004-05 (excluding visitors for functions, events or educational purposes) were 102,000, slightly lower than the planned 110,000, but this was more than offset by

greater numbers of visitors in respect of functions and education. Overall, the Garden's financial performance was comfortably ahead of its Recovery Strategy targets, as set out in [Figure 8](#) below.

**1.30** In addition, the Garden is seeking to raise income through the effective development of private sector partnerships. Progress has also been made on a number of other fronts:



Figure 8: The Garden's 2004-05 performance against its Recovery Strategy

	Actual	Recovery Strategy	Variance
	£000	£000	£000
<b>Total operating income</b>	1,095	812	283
<b>Gross profit</b>	913	713	200
<b>Total salaries and overheads</b>	1,239	1,140	99
<b>Net profit/(loss) before depreciation</b>	(424)	(502)	78

Source: The Garden

- a** new Trustees have been recruited;
- b** a strengthened management team at the Gardens is being established, adding to the experience and competencies of the small management team which has delivered the Recovery Strategy to date;
- c** annual marketing plans are being produced with the assistance of the South West Wales Tourism Partnership and the Tourist Board;
- d** the Millennium Commission has approved a revised capital programme; and
- e** the education programme continues to be delivered in partnership with Carmarthenshire County Council, Coleg Sir Gâr and other education providers, with usage exceeding forecast by 72 per cent.

**1.31** The Assembly Government and all other key stakeholders receive monthly updates on progress against the recovery plan from the Garden, including full details of its financial position. The funding partners continue to conduct regular stakeholder meetings to consider the progress being made by the Garden.





## Part 2: Providing capital funding to the Garden project entailed a number of benefits and risks for the Welsh funders

### The proposal for a botanic garden at Middleton was attractive to funders but involved risks

**2.1** This part of the report considers the actions of those administering European grants, the WDA and the Tourist Board in providing capital funding to the Garden to match the Millennium Commission's contributions and, in particular, whether they were sufficiently alive to the risks involved. It also considers the monitoring arrangements in place to ensure that grant money was spent appropriately and the potential for clawing back grant. Issues relating to the Science Centre are dealt with in Part 3.

**2.2** The proposal for a botanic garden at Middleton was an attractive proposition to prospective funders. In addition to its scientific, education and conservation objectives, the proposed project offered the possibility of regeneration and economic development in a deprived area. It promised direct and indirect job creation, an increase in tourists visiting the area, an injection of private sector capital, promotion of local culture and heritage, and environmental

enhancement. It thus succeeded in meeting the main objectives of the European Structural Funds, the WDA and the Tourist Board.

**2.3** However, providing funding to the Garden also entailed a number of risks. In order to assess and manage these risks, funding partners needed to be fully informed at all times about exactly what was being built and how it would operate in the long term. The ability of the funders to manage the risks involved was further complicated by the changes to the Garden's construction and operational plans. **Figure 9** illustrates the changes made by the Garden to the key operational forecasts prior to opening, with the trend being higher visitor numbers, increased income and increased expenditure. Further details on each of the plans are in Appendix 2.

**2.4** A common tool for assessing risk is sensitivity analysis – assessing the impact of changes in key variables. Although the Garden was consistently revising its forecasts, none of the business plans seen by the Welsh funders contained any sensitivity analysis to determine the impact of these changes on the financial viability of the project, and none of the funders required or requested such analyses from the Garden. These might have enabled funders to understand the potential implications of the Garden failing to achieve visitor forecasts, or facing higher than anticipated expenditure, as well as the effects of attracting more visitors than predicted. At only one point did the Welsh funding partners conduct a sensitivity analysis on the Garden's plans (the Tourist Board – paragraph 2.26).

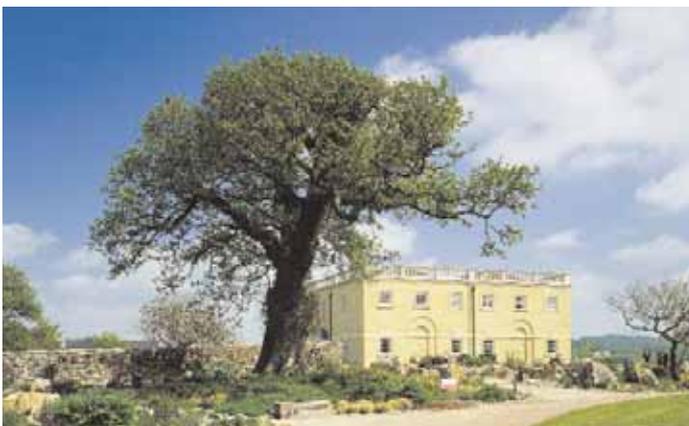
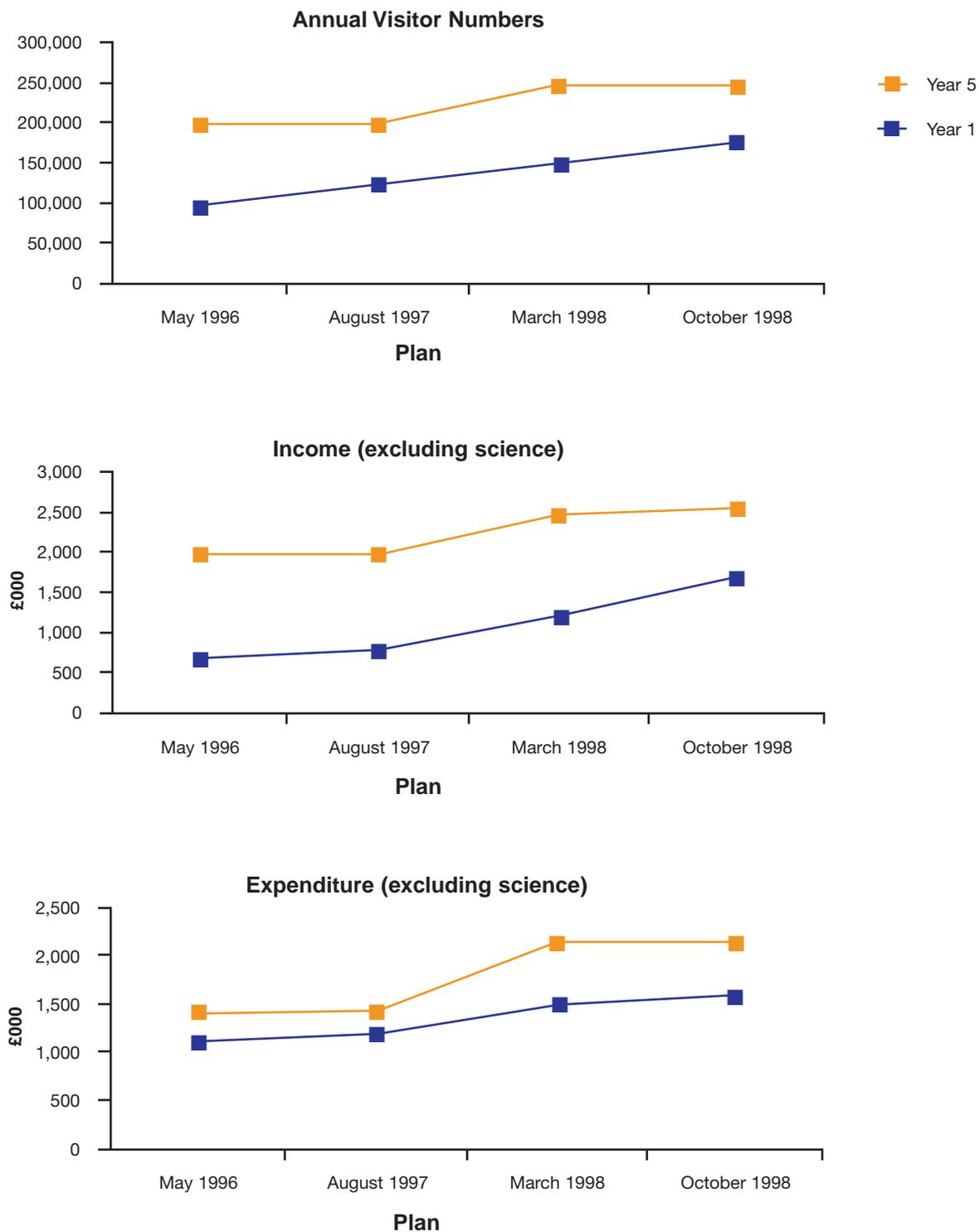




Figure 9: Changes to the Garden's business plans tended to forecast increased visitor numbers, income and expenditure



Source: WAO analysis of the Garden's business plans

## Those involved in administering European funds appraised the Garden’s applications prior to approving funding but did not fully address risks posed by changes to the Garden’s business plans

**2.5** The Garden was awarded a total of £6.4 million of European Regional Development Funding (ERDF), through five separate grants (see Figure 10). When the Garden first applied for funding, the Welsh Office was responsible for appraising ERDF applications and the final

decision was made by the Secretary of State. At the time of the Garden’s subsequent bids, the Welsh European Programme Executive (WEPE), a private company limited by guarantee, had been established to appraise applications and approve projects<sup>4</sup>. Prior to approval, projects were also assessed by the Industrial South Wales Project Assessment Group, made up of sectoral experts, and the Core Group, with an overall strategic remit. Because the total cost of the Garden exceeded €25 million, the first two grants also required European Commission approval.

Figure 10: Overview of European funding

Grant amount £000	Date approved	Form of Assistance	Details of funding
3,670	May 1996	ERDF ISW Grant 94/96 (Paid via Welsh Office)	<ul style="list-style-type: none"> <li>■ Land Purchase</li> <li>■ Site preparation</li> <li>■ Main entrance/ gatehouse</li> <li>■ Middleton complex</li> <li>■ Extensive gardens</li> <li>■ Nursery</li> <li>■ Fit outs (desks, chairs)</li> <li>■ Salaries</li> <li>■ Planning compliance</li> <li>■ Design fees</li> <li>■ Other fees</li> </ul>
1,800	December 1999	ERDF ISW Grant 97/99	<ul style="list-style-type: none"> <li>■ Professional fees</li> <li>■ Site works</li> <li>■ Construction costs</li> <li>■ Preliminaries</li> <li>■ Main entrance</li> <li>■ Interpretation</li> <li>■ Middleton square</li> <li>■ Gardens nursery</li> <li>■ Signage</li> <li>■ Planning and survey</li> </ul>
210	December 1999	ERDF ISW Grant 97/99	<ul style="list-style-type: none"> <li>■ Marketing</li> </ul>
479	December 1999	ERDF ISW Grant 97/99	<ul style="list-style-type: none"> <li>■ Development of Science Centre including the construction of 12 specialist incubator units</li> </ul>
278*	November 2001	ERDF ISW 97/99	<ul style="list-style-type: none"> <li>■ Revenue support for the operation of the BioTechnium element of the Science Centre</li> </ul>
<b>6,437</b>			

Source: Wales Audit Office

\* Only £96,170 was paid as the BioTechnium could no longer be marketed – see Part 3

<sup>4</sup> In 2000, WEPE’s functions, along with most other activities relating to the administration of the Structural Funds, were transferred to the Welsh European Funding Office (WEFO), initially an Executive Agency of the Assembly but from July 2003 part of the Assembly Government.



Responsibility for monitoring and payment of all grants remained with the Welsh Office, subsequently the National Assembly for Wales.

## The Welsh Office was initially sceptical about the long-term financial viability of the Garden

**2.6** The Garden first submitted a bid for £3.6 million ERDF funding in June 1995<sup>5</sup>, under the Regional Challenge Scheme, designed to enhance regional economic performance and reduce regional disparity. The Garden was eligible to apply for this pot of funding because it was located in the Industrial South Wales (ISW) region within the Objective 2 area<sup>6</sup>.

To succeed in its application, the Garden had to show that it met a range of criteria, including contributing to the overall Objective 2 programme and demonstrating that it could bring private sector money into the area.

**2.7** The Garden's initial Regional Challenge bid document did not contain detailed operational forecasts. In July 1995, the original sponsor of the Garden project told the Welsh Office that he would be required to convince the Millennium Commission that an anticipated revenue deficit could be bridged. According to the Welsh Office records he also "*hinted that the question of running costs would at some stage need to be broached with the Department*". The Garden subsequently provided the Welsh Office with a copy of its September 1995 Business Plan (the key elements of which are at Appendix 2), showing that the Garden would run at a loss for three years, before achieving a surplus in its fourth year. The Welsh Office assessed the plan and identified a number of risks:

**a** that the need for deficit funding for the first three years demonstrated that the project

might not be financially viable in the long term, although for the purposes of Regional Challenge funding viability only had to be demonstrated over two years;

**b** that Welsh Office analysis of likely visitor forecasts concluded that the Garden would attract a maximum of 190,000 annual visitors at maturity, slightly lower than the Garden's forecasts of 200,000 (see also [Figure 12](#)); and

**c** that the Garden had not explored all the options for attracting private sector funding.

Before these risks could be fully addressed, the Garden submitted a significantly revised bid for consideration.

## Because the first ERDF grant was approved on the basis of a smaller scale, lower cost, version of the Garden, risks were shifted to a later phase

**2.8** The Garden revised its bid for ERDF in February 1996 to reflect the decision to build the Garden in discrete phases (paragraph 1.14 and Appendix 3). Although the Garden proposed a smaller scale, lower cost version of the project, it did not reduce the level of ERDF funding it sought. The revised bid was made on the basis of only Phase 1 of the Garden being built. In support of the revised bid, the Garden submitted new visitor and income forecasts, reflecting the fact that a smaller attraction would attract fewer visitors (100,000 at maturity) who would spend less. The key elements of the February 1996 Plan are set out in [Figure 11](#).

**2.9** This smaller project partially addressed the risks previously identified in that less private sector

<sup>5</sup> This was shortly after the Garden first approached the Millennium Commission for lottery funding, but prior to submitting a formal bid.

<sup>6</sup> The European Union Objective 2 programme covered areas of high economic and social deprivation.

Figure 11: The Garden's February 1996 Plan for a smaller-scale attraction

	1998	1999	2000	2001	2002
Visitor numbers (000s)	40	50	75	90	100
Total income (£000)	433	326	510	629	762
Total expenditure (£000)	498	546	617	658	683
Surplus/deficit* before interest (£000)	-66	-219	-107	-30	78

Source: The Garden's February 1996 Business Plan

Note: This Plan, for Phase 1 of the project, did not include any scientific activities

funding was required and the forecast deficits in the early years of operation were much lower, due to reduced expenditure and the absence of a subsidy for science activities as the Science Centre would not be built during Phase 1. However, under this plan, the Garden needed deficit funding for four years, a year longer than originally envisaged, and would barely break even at maturity. In February 1996, the Garden wrote to the Welsh Office explaining that this deficit would be funded through a bank overdraft, thus demonstrating viability over the Regional Challenge Scheme two year period. However, because the Garden's intention remained to complete the whole project, splitting the construction into two phases had not removed the previously-identified risks, but instead shifted them to a later phase of the project.

**2.10** A grant of £3.67 million was finally approved by the Welsh Office in May 1996. Although the Welsh Office also took some assurance from subsequent approval by the European Commission, we were unable, from our review of relevant files, to find evidence that the residual risks of the project had been recognised or addressed at the point when the final decision to fund the Garden was made.

### WEPE appraised the Garden's second application for ERDF but did not fully address risks posed by changes to the Garden's business plan

**2.11** With Phase 1 of the project nearing completion, the Garden submitted a second bid for ERDF funds in March 1998, for Phase 2. It was supported by a new business plan with significantly higher forecast expenditure – both staff costs and cost of sales – and more ambitious visitor and income forecasts (Figure 9). This revised plan did not fundamentally change the nature of the project, but forecast a total of 250,000 visitors at maturity, spending £8.32 per head from year one, a significant rise on the first plans submitted to the Welsh Office. The plan contained detailed evidence of new market research, carried out by the Garden's appointed consultants, on which the visitor figures were based, with revised penetration rates for targeted market segments. The plan asserted that the revised figures had been "refereed" by, amongst others, the Welsh Office and the Tourist Board. While the Garden's earlier plans (1995 and 1996) had been reviewed by these bodies, we can find no evidence that the increased numbers in the revised plan had also been subject to review before the application was submitted.



The Garden had also changed another of its key operating assumptions: scientific activities were now predicted to be “self-funding” and would no longer be subsidised by income from the visitor attraction. The plan contained no justification for this change in operational intentions.

**2.12** None of these changes – on visitor numbers, income, expenditure and science funding – affected the Garden’s previous plan to run at a loss for the first three years of its operations. However, as a consequence, the risks involved in the project had increased: more income from visitors was required to cover the higher costs that the Garden now expected to incur, and the project would still not be breaking even until the fourth year of operation. In particular, the forecast numbers of visitors at maturity, 250,000 a year, now significantly exceeded the 190,000 visitors that the Welsh Office estimated the Garden would attract when it approved the first ERDF grant.

**2.13** The Garden had also changed the way it intended to fund deficits during the early years of operations. The revised plan asserted that the Trustees had taken steps to establish a sinking fund (see paragraph 1.12), which at the time stood at £400,000, to finance any deficit from operations in early years. Under the May 1996 business plan, the Garden had intended that the sinking fund would only be used to fund maintenance and enhancement works. The Garden had planned to use a bank overdraft to fund the forecast deficits, although it also aimed to raise an additional £2 million in private funding to act as a cushion against deficits and unexpected expenditure. Neither this aim of raising an additional £2 million contingency nor the overdraft facility featured as part of the revised business plan.

**2.14** The initial WEPE appraisal documentation of the revised business plan relating to this bid did not

recognise that the key forecast financial data had changed from the Garden’s original plans. The only risks identified were those recognised by the Garden itself in its application. These included risks associated with delays to construction and attracting matched funding, as well as failure to achieve visitor numbers. The Garden rated the risk of failing to achieve visitor numbers as low because the forecasts were based on market research. WEPE’s appraisal concluded that the Garden had provided evidence of medium-term (3-5 years) viability as the plan recorded that the Garden’s trustees had taken steps to establish a sinking fund to cover early operational deficits while visitor numbers built up to 250,000. Neither WEPE’s appraisal nor the Garden’s business plan addressed the issue of how the Garden would fund any unexpected deficits if the visitor income forecasts were not realised or if expenditure exceeded forecasts.

**2.15** The Garden’s bid was subsequently reviewed by the Industrial South Wales Project Assessment Group, whose membership included the Tourist Board and the WDA. In particular, the Tourist Board reviewed the revised forecasts and expressed the opinion that they were “*very realistic*”. The Tourist Board’s review concluded that “*the product is capable of attracting in excess of 200,000 visitors [a year] and the applicant indicates c. 252,420 ... visitors.*” However, the review did not recognise that the forecasts had changed significantly since the Garden’s original plan, nor did it reconcile differences between the Garden’s method for estimating visitor numbers, the method the Welsh Office used to assess the original application for ERDF funding and the method that had recently been agreed by relevant parties (see [Figure 12](#)). Neither did the review contain any sensitivity analysis on the potential impact of failure to achieve the revised forecasts.

Figure 12: Methods used to forecast visitor numbers

The Garden's original (1996) visitor forecasts were based on a 120 minute "isochrone" – the potential market was defined as those living with 2 hours' drive from the Garden. Analysis of likely market penetration of that population showed that the Garden would attract around 200,000 visitors at maturity. When the Garden's first ERDF bid was considered, the Welsh Office was sceptical as to whether visitors would travel for two hours to the Garden. It adopted a method based on the experience of similar projects in Cornwall, which also has a sparse rural population, where visitors to garden attractions represented around 10 per cent of all visitors to the area. Using this method, the Welsh Office calculated that the Garden would attract around 190,000 visitors at maturity.

Subsequently, in December 1997, the Industrial South Wales Area Project Assessment Group and Core Group agreed with WEPE that the basis for appraising all ERDF applications should be a 90 minute isochrone – the population within a 90 minute drive. However, the Garden's increased figures of 250,000 visitors at maturity, submitted as part of its second bid for ERDF in 1998, were based on revised market penetration within a 120 minute isochrone.

**2.16** In approving the Garden's application, WEPE took comfort from the due diligence work carried out by the European Commission. The European Commission initially expressed concern to the WEPE about the poor quality of the application. Amongst the European Commission's concerns was the risk posed by deficits and how they would be covered if visitor numbers were not achieved. These concerns were passed on to the Garden by WEPE. The Garden responded that deficits would only be incurred if no sponsor could be found for the science programme, even though

its original bid said that the science programme would be self-funding. It also pointed to the £400,000 contingency fund established to cover any deficits, adding that it intended to establish a £700,000 fund during Phase 2. After further negotiations, the European Commission finally approved the bid in December 1999.

**2.17** WEPE's appraisal of the Garden's bid took account of the range of supporting papers provided by the Garden, including market research carried out by the Garden's own consultants. It also reflected the technical advice provided by the Industrial South Wales Project Assessment Group, including representatives from the Tourist Board, as well as the assessment undertaken by the European Commission. It was reassured as to the reasonableness of the visitor forecasts and the sinking fund established to cover forecast deficits. However, it did not appear to be fully sighted of the Welsh Office's earlier concerns which meant that it did not probe the reasons why the Garden's main forecasts had changed; nor did it pursue with the Garden how it intended to remain viable in the event that its revised forecasts did not materialise.

### The WDA assessed the Garden's original business plan and recognised that revenue funding was a risk

**2.18** The WDA provided a total of £2.1 million towards the costs of the Garden and the Science Centre (see Figure 13). The WDA had been one of the early supporters of the concept of a botanic garden at Middleton and provided funding of £132,000 towards the September 1995 business plan that the Garden needed to secure Millennium Commission funding. This grant was considered to be low risk: at that stage the



Figure 13: Overview of WDA funding

Grant amount £000	Date approved	Form of Assistance	Details of funding
132	July 1995	Rural Programme 1995/96 Section 15	Contribution towards business plan – professional fees
125	March 1997	Rural Programme 1996/97 Section 15	<ul style="list-style-type: none"> <li>■ Great Glasshouse design</li> <li>■ Landscape design</li> </ul>
750	March 1998	Rural Programme 1997/98 Section 15	<ul style="list-style-type: none"> <li style="width: 50%;">■ Broadwalk</li> <li style="width: 50%;">■ Trees</li> <li style="width: 50%;">■ Paths</li> <li style="width: 50%;">■ Plants</li> <li style="width: 50%;">■ Hydro civils, dams &amp; lakes</li> <li style="width: 50%;">■ Design and supervision</li> </ul>
375	March 1999	Rural Programme 1998/99 Section 15	■ Extension of funding for 1997/98 project
750	1999 - £500,000 2001 - £250,000	Joint Venture Agreement	■ Science Centre
<b>2,132</b>			

Source: Wales Audit Office

WDA was not committing to any further expenditure on the Garden.

**2.19** Once the Garden’s first Business Plan had been produced, the WDA expressed a number of concerns about the long-term viability of the project. In September 1995, the WDA wrote to the Garden expressing surprise that it was not seeking further revenue funding. The letter also detailed concerns about the Garden’s September 1995 business plan: over-optimistic visitor numbers in the early years; optimistic income forecasts for events and functions; and an underestimate of costs, such as horticultural maintenance. The Garden responded that its key operating assumptions were robust and based on expert analysis by their consultants.

**2.20** In October 1995, before the Millennium Commission had confirmed its funding, the WDA took an “in principle” decision to provide £1.25 million, spread over five years, towards the cost of environmental enhancement works at the Garden, subject to further detailed approval and confirmation that all Millennium Commission and other funding was in place. This decision was based on a project appraisal of the Garden’s September 1995 business plan, which in fact proposed a total of £4.1 million WDA funding<sup>7</sup>. The appraisal recognised that other botanic gardens in the United Kingdom were run at a loss and required deficit funding. However, it concluded that even if deficit funding was required but not forthcoming, the WDA’s investment would have “created a high quality country park based on the restoration of an historic landscape”, thus meeting the environmental objectives of the grant.

<sup>7</sup> The WDA offered £1.25 million rather than the £4.1 million sought by the Garden because of the relatively low number of jobs that would be created.

The appraisal also recognised the possibility that capital costs might overrun and that the public sector may have to cover those costs if funding from the private sector was not forthcoming. Because of this risk, the WDA felt that “some form of control of the overall project would ... be considered desirable” – some type of funding bodies’ liaison committee with a watching/advising brief.

**2.21** The decision to move the construction to two phases impacted on the WDA’s assessment of the risks involved in providing funding. In April 1996 the Garden asked the WDA to reallocate the £1.25 million to Phase 1 alone, with the grant to be paid over three years. The WDA initially rejected this request, because of budgetary difficulties associated with shortening the payment scheme and changes to the administration of the Rural Programme<sup>8</sup>, and because of the risk that it would be providing the same amount of money for a significantly less ambitious project, with lower outputs in terms of visitors and job creation. After receiving revised forecasts from the Garden regarding job creation under each phase, and resolving budget issues with the Welsh Office, the WDA approved the change in March 1997. It issued an “in principle” grant offer letter to the Garden of £1.25 million to be paid in three tranches, and seeking to manage the risks of reduced outputs by including the grant condition that the Garden had to ensure Phase 1 was fully funded and use “best endeavours to achieve Phase 2”. It also required the Garden to demonstrate that it had satisfactory construction project management arrangements.

**2.22** Before approving grants in principle, the WDA conducted internal risk assessments and liaised with the Garden’s professional advisers and other funding partners to test the evidence

underlying the Garden’s business plans. The WDA told us that it also took assurance from the comprehensive due diligence activities that the Millennium Commission reported it had undertaken, although it did not see this work. The WDA took the view that carrying out further assessments would not be a good use of public money and would duplicate the work of the Millennium Commission. The WDA also emphasised to us that, although it was supporting specific capital works, it did not intend to play any significant long term role in the project.

**2.23** After approving the £1.25 million in principle, the WDA gave separate “detailed approval” to each tranche of the grant (Figure 13). Before releasing the funds, the WDA ensured that it saw detailed tender documents and design briefs, assessed supporting documentation and carried out verification visits. It also liaised with the Garden to ensure that claims were submitted in accordance with grant conditions and WDA procedures.

### The Tourist Board believed the Garden’s original business plan was viable but could have been more robust in assessing later changes to the plans

**2.24** The Tourist Board provided a total of £1.2 million to the Garden in three separate grants – see Figure 14. In October 1995, prior to the Millennium Commission approving its funding, the Tourist Board had decided “in principle” that the Garden was eligible to apply for up to £300,000 funding. In March 1997, with Millennium Commission funding confirmed, the Tourist Board approved £300,000 towards construction costs at the Garden. The Tourist

<sup>8</sup> In late 1996, the Rural Programme budget was transferred from the WDA to local authorities.



Figure 14: Overview of Tourist Board funding

Grant amount £000	Date approved	Form of Assistance	Details of funding	
300	March 1997		<ul style="list-style-type: none"> <li>■ Car park</li> <li>■ Gatehouse</li> </ul>	<ul style="list-style-type: none"> <li>■ Interpretation</li> <li>■ Paths</li> </ul>
400	December 1999		<ul style="list-style-type: none"> <li>■ Audio visual facility</li> </ul>	
500	May 2000	Investment Support Scheme	<ul style="list-style-type: none"> <li>■ Phases 2 &amp; 3</li> <li>■ Transport – internal for visitors</li> <li>■ Exhibitions</li> <li>■ Gallery</li> <li>■ Viewing terrace</li> <li>■ Boardwalk enhancements</li> <li>■ Seating and shelters</li> </ul>	<ul style="list-style-type: none"> <li>■ Landscaping</li> <li>■ Visitor access to energy centre</li> <li>■ Entrance enhancements</li> <li>■ Great Glass House – visitor facilities</li> <li>■ Interpretation &amp; lighting</li> <li>■ Court garden facility</li> <li>■ Walled garden</li> </ul>
<b>1,200</b>				

Source: Wales Audit Office

Board told us this decision was taken on the basis of the May 1996 business plan, which involved the full Garden project. The Tourist Board considered this business plan to be realistic and viable, and it had been involved in commissioning the visitor study on which the visitor and income forecasts were based.

**The Tourist Board, with Assembly Government approval, approved further funding on the basis of a revised business plan without fully addressing new risks to the Garden’s viability**

**2.25** In July 1999, with construction of Phase 2 of the project underway, the Garden bid to the Tourist Board for £400,000 towards the construction of an Audio Visual Unit, an item not included in the Garden’s original plans. Initially the Tourist Board was concerned about the lack of detail in the bid and requested further information. In response,

the Garden provided extracts from a new business plan, dated October 1998. These showed that the Garden had upwardly revised its visitor forecasts again since its March 1998 plan (Figure 9): 175,000 visitors from year one, rising to 250,000 by 2003 rather than 2004. The Garden’s October 1998 plan stated that the revised projections were supported by research and analysis by consultants although this was not included in the extracts sent to the Tourist Board. The extracts from the October 1998 plan also differed from the March 1998 plan by reverting to previous plans that science activities would be subsidised by the visitor attraction.

**2.26** Because the bid exceeded £300,000, Assembly Government approval was also required. In a submission to the Assembly Government, in October 1999, the Tourist Board recommended approving the grant, but highlighted a number of

concerns. It recognised that visitor numbers in the May 1996 and October 1998 plans were not consistent and that it was “difficult to reconcile the information provided”. There was no reference in the Tourist Board’s review on this bid by the Garden to the work it had done on behalf of the Industrial South Wales Project Assessment Group on the Garden’s bid for ERDF funding the previous year (paragraph 2.15). The review highlighted risks associated with visitor forecasts, calculating that the Garden’s deficit would increase by £50,000 a year for each 10,000 shortfall against visitor targets (this is the only evidence we have seen of any sensitivity analysis being carried out on the Garden’s proposals).

**2.27** The Assembly Government also had a number of concerns about the bid, including: the lack of detailed costings; forecasts of visitors generated by the Audio Visual Unit; and the Garden’s reliance on deficit funding for the first three years. In November 1999, the Tourist Board submitted a Memorandum of Responses addressing some of the Assembly Government’s concerns. It responded that adequate information on costs had been supplied by the Garden’s Quantity Surveyor. It used the Garden’s visitor forecasts to calculate that the Audio Visual Unit would attract 25,000 visitors (10 per cent of total visitors), a figure it felt was “reasonable”.

**2.28** In its Memorandum of Responses, the Tourist Board was less able to resolve the Welsh Assembly Government’s concern about deficit funding. The business plan extracts submitted to the Tourist Board in support of the application stated that “a sinking fund reserve is established to finance any deficit from operations in the early years”. Like the March 1998 plan, the extracts made no reference to the Garden’s earlier plan to fund deficits from a bank overdraft nor its previous aim of raising an additional £2 million contingency from private sources. The Tourist

Board informed the Assembly Government that, at the time, the Garden had verbally confirmed that it had set up a £1 million contingency fund. The Tourist Board proposed to undertake an analysis of the arrangements once they had been properly confirmed. Furthermore, the Tourist Board assured the Assembly Government that it would insist that the Garden provide a revised business plan to all funding partners should the fund not materialise, in order for them to reappraise the available options. Although it remained concerned about the bid, in December 1999, the Assembly Government wrote to the Tourist Board, stating that it was “*prepared exceptionally in this case to approve your grant offer*”.

**2.29** The Tourist Board inserted a clause into the final grant offer obliging the Garden to provide proof that funding provision was in place to cover deficits projected during first three years of trading prior to any release of grant monies. In December 2000, the Tourist Board accepted that the anticipated deficits at the Garden would be funded out of the money raised through the leaseback agreement (see paragraph 1.15), which it felt was more than adequate to satisfy the deficits forecast for three years. However, the Garden used the leaseback money to attract match funding from the Millennium Commission for capital works and shortly thereafter, the Garden was reliant on a bank overdraft to cover deficits.

**2.30** The Tourist Board takes the view that its appraisal was appropriate and that the visitor forecasts supplied were reasonable, even though they were higher than those in the original visitor research the Tourist Board had commissioned. The Tourist Board also maintains that it took sufficient steps to ensure that it mitigated the risks of predicted deficits by carrying out sensitivity analysis (paragraph 2.26) and assuring itself that the funding was in place to cover the



predicted deficits. In addition, the Tourist Board was of the view that the Garden's marketing plan would assist in meeting visitor projections. However, we consider that the Tourist Board could have been more robust in examining and probing the reasons behind the changes to the Garden's operational forecasts, and the risks posed by failure to meet those new forecasts. In particular, having identified the risk that failure to meet the revised visitor income targets would add to the predicted deficits that it was concerned about, the Tourist Board could have challenged the Garden about the steps it would take to manage additional deficits and secure its viability should the revised forecasts not materialise.

### The Tourist Board took steps to manage risks after the Assembly Government channelled £500,000 to the Garden through the Tourist Board

- 2.31** In April 2000, shortly before it was due to open, the Garden approached the Assembly Government for £1 million as matched funding to enable it to draw down Millennium Commission funds to complete Phase 2. The Assembly Government rejected the application on the basis that no funding was available. The Garden made a second application for £1 million to the Assembly Government which, on 19 May 2000, with the deadline for drawing down Millennium Commission funds five days away, agreed to provide £500,000 towards the tourism aspects of the proposed works, channelled through the Tourist Board and subject to the same conditions as the previous grant for £400,000. The decision to fund was taken "in principle", subject to further scrutiny. Once the decision had been made, the Tourist Board conducted an analysis of the Garden's proposed works to identify aspects that were essential and could be funded out of the £500,000.
- 2.32** The Tourist Board spent a further seven months carrying out an appraisal of the detailed costings, the timing of the works, and the implications for cashflow before formally awarding the grant. During this period, the Garden had opened and whilst it was attracting more visitors than forecast it was also reporting higher losses than anticipated (see paragraph 1.16). The Tourist Board was concerned at the losses, but accepted that the anticipated deficits would be funded out of the leaseback monies and that steps proposed by the management to address performance weaknesses (restructuring, outsourcing and reduction in staff) appeared balanced and reasonable.
- 2.33** In December 2000 the Tourist Board wrote to the Assembly Government confirming that it was satisfied that "*the timing of the works, the implications for cashflow, trade and staffing levels are appropriate and manageable*". In March 2001, the Tourist Board made its formal grant offer to the Garden, subject to the same conditions as the grant for the AV Unit. Due to concern about larger than anticipated deficits, the Tourist Board's offer letter also required the Garden to provide quarterly budgets measuring performance against budget, together with explanations for variances.
- 2.34** In approving the funding in December 2000, the Tourist Board had also decided that "if possible" some form of skills audit should be undertaken at the Garden. The Tourist Board subsequently conducted a site inspection into the quality of the visitor experience (such as the appearance and manner of customer-facing staff), as part of its "Star Attraction" quality assurance scheme, which concluded that there were no problems at the Garden.

## Welsh funders could have communicated and collaborated further to establish the extent of the financial difficulties facing the Garden

**2.35** The bulk of the resources provided by the Welsh funders – WEPE/WEFO, the WDA and the Tourist Board – was for capital works. The focus of the funders during the capital phases of the project was on their own grants; these works were generally completed on time and to budget (with the exception of the Science Centre – see Part 3). Although Carmarthenshire County Council and the Millennium Commission had representatives on the Garden’s Board of Trustees (in the latter case as an observer), neither WEPE/WEFO, the WDA nor the Tourist Board had an overview of the whole project; they were aware of who was funding what, but had little knowledge of the progress of other capital works, although this might have impacted on the progress of the capital works which they were funding. The WDA and Tourist Board, along with the Countryside Council for Wales and Carmarthenshire County Council, were part of a funders’ liaison group, which met during the early stages of the Garden’s development, but this group stopped meeting after the middle of 1997.

**2.36** We consider that, for a large and complex project such as this, with several partners funding a variety of discrete works, there was a collective responsibility on those providing significant amounts of public money to share information about the progress of the whole project – not least to ensure that their own investments were being protected. For example, more liaison between the funders during the capital phase might have alerted them to the regular amendments to the Garden’s business plans, each of which contained different operational forecasts. It might also have

alerted them to the fact that they shared very similar views on the main risks to the Garden succeeding.

**2.37** Once the Garden opened, the ability of the funders to oversee the Garden’s operations was limited: the capital phase for which most of the funding had been provided was now largely complete. The Welsh funders have told us that, because they were providing capital funding for discrete works, they did not have individual responsibility to monitor the overall operating performance of the Garden. However, the key objective of Welsh funding partners’ capital investments had been to create a successful revenue operation that attracted visitors, created employment and boosted the local and wider economy. In our view, therefore, there was scope for a more collective approach, given the significant public funding involved, to communicate and share information about the progress of the overall project.

**2.38** Some Welsh funding partners were presented with a number of early warnings that the Garden might be experiencing difficulties – see also paragraph 1.17:

- a** in October 2000, five months after opening, the Garden made a formal bid to the Assembly Government for revenue funding for its science and education programmes;
- b** the Tourist Board had access to the Garden’s accounts from December 2000 onwards, which showed that the Garden was accruing higher than anticipated deficits, although during 2001 this would have been partly due to the impact of foot and mouth; and
- c** in May 2001, the Garden approached the Assembly’s Economic Development and Transport Committee to request £622,000 revenue support.



**2.39** Had there been more communication among the Welsh funders, there might have been more scope for the early identification of these warning signs and hence a collective response. However, Welsh funding partners were not fully and equally aware of the problems at the Garden until the first meeting of the Stakeholder group in April 2002. Consequently, the opportunity for funding partners collaboratively to assist and advise the Garden during the crucial opening period had been lost. Just two months after the funding partners met, the Garden reported that it was approaching its overdraft limit (paragraph 1.22).

### Clawback arrangements were in place and would have protected public funds in certain circumstances

**2.40** In order to protect their investment, Welsh funding partners included “clawback” conditions as part of their grants. These enabled them to reclaim grant money in specific circumstances. Figure 15 sets out the clawback conditions of each Welsh funding partner.

**2.41** These arrangements were designed to enable investments to be recouped if, for example the

Figure 15: Clawback conditions for grants

Funder	Conditions under which grant money could be reclaimed
<b>WEPE/WEFO</b>	<ul style="list-style-type: none"> <li>■ Overpayment</li> <li>■ not using money for agreed purposes</li> <li>■ changes in the nature, scale, or cost of the project</li> <li>■ future of the project being in jeopardy</li> <li>■ discovery of incorrect or inadequate information in the application</li> <li>■ unsatisfactory progress towards completion</li> <li>■ disposal of assets or assets no longer being used for their agreed purpose</li> </ul>
<b>WDA</b>	<ul style="list-style-type: none"> <li>■ the purpose of the project changes</li> <li>■ project assets are sold or otherwise disposed of without the prior written consent of the WDA within 5 years from the payment of grant</li> <li>■ there is double-funding</li> <li>■ any material misrepresentation of information is provided</li> <li>■ material breach of any of the terms and conditions</li> </ul>
<b>Tourist Board</b>	<ul style="list-style-type: none"> <li>■ The Garden was not open for at least six months a year</li> <li>■ assets were sold or disposed of without consent</li> <li>■ the Garden fails to run its business efficiently, keep proper accounts and insure premises</li> </ul>

Source: Wales Audit Office

nature of the project changed, the Garden was sold or indeed if the Garden had gone into administration. However, as is common with many projects that are funded by both the public and private sectors, public funders do not take precedence over private sector funders. Indeed the type of security they hold over assets is different. In addition, over time the value of some assets that are funded by public funders diminishes and therefore the ability of public funders to recoup their

investment in these assets also diminishes. The leaseback arrangement, approved by the Welsh funding partners in 2000 (see paragraph 1.15), made Lombard the primary creditor. Welsh public funding partners were also below another bank and the Millennium Commission on the list of those with claims against the Garden in the event of insolvency. Consequently, the chances of Welsh funding partners recovering any of the money would have been remote.





## Part 3: The Garden's Science Centre remains unoccupied over three years after the building was constructed

- 3.1** The aim for the Garden was to be more than just a visitor attraction. Like other national botanic gardens in the world, the Garden's objective of becoming a leading international centre for research in the science of plants was a key aim from the outset. Unlike other botanic gardens in the United Kingdom, however, its scientific activities were to be partly funded by the revenue generated from visitor income and not from government subsidies. This was a unique challenge; the Garden's Science Centre was dependent on the Garden becoming a successful visitor attraction.
- 3.2** Although construction of the Science Centre building was finished in August 2002, it is not yet operational. This part of the report looks at how the Garden planned its scientific activities, what happened and the present situation.
- Plans for the Science Centre were expanded before the Garden opened to include a start-up facility for scientific entrepreneurs**
- 3.3** In preparing its business plans, the Garden took account of experience elsewhere which suggested that, unless sponsorship could be attracted, any science facility was unlikely to recover more than 25 per cent of costs through income for work done. Other botanic gardens, such as Kew and Edinburgh, receive grant in aid for their scientific activities but this was not an option open to the Garden as a private venture. As a consequence the Garden set out to fund its scientific activities from other sources such as income from visitors.
- 3.4** The first business plans for the Garden, in 1995 and 1996, forecast a fully-operational Science Centre by the year 2000 with a deficit of £244,000 in the first year falling to £134,000 in the fifth year. The reduction in the deficit assumed both rising incomes from scientific work and the attraction of sponsors by year five. All deficits, including the annual £134,000 shortfall, were to be funded initially from borrowings and ultimately income from the visitor attraction.
- 3.5** The original plans for the Science Centre were predicated on an internal science research organisation, housing the Garden's own scientific research team. However, by 1998 the planned use of the Science Centre had expanded to incorporate twelve specialised incubator units as a commercial start-up facility for scientific entrepreneurs. The Garden's staff were to occupy 20 per cent of the Science Centre's floor space, the incubator units 37 per cent, with the rest used as shared support facilities. For science entrepreneurs, the incubator units were planned to provide a supportive environment in the crucial start-up years of a business, to accelerate development of an initial proposal through to confirmation of market potential.
- 3.6** A KPMG report in November 1999, commissioned by the Garden at the request of the WDA, provided best and worst case models for the incubator units operation. In the best case the business was forecast to start trading with a surplus after two years and accumulated deficits of £104,000. In the worst case it would take three years to break even with

accumulated deficits of £150,000. These were in addition to the deficits identified in respect of the Science Centre (paragraph 3.4). However, the Garden's overall Business Plan was not updated at this point to reflect the incubator units element.

**3.7** Adding the incubator units element attracted further grant support from both the WDA and from the European Structural Funds. However, it also stretched the scientific and management challenge facing the Garden from the outset: in addition to carrying out its own botanic research, in common with other botanic gardens, it was now also aiming to support outsiders developing commercial ideas. After the project had been initiated, concerns were subsequently expressed within the Assembly Government's Agriculture Division that they were not consulted over this investment, particularly as they considered locations elsewhere in Wales to be better placed for such support.

### The Science Centre building was constructed in 2002 but there has been very little scientific activity in the facility

**3.8** In March 1998, the whole Science Centre, including the incubator units and scientific equipment, was costed for Millennium Commission grant purposes at £4.8 million. By the end of 1999, the Garden had more detailed information on forecast costs: the building costs of the Science Centre, excluding furniture and professional fees, were put at £1.725 million, of which £1.2 million was attributable to the incubator units, the latter being supported by grants of £500,000 from the WDA and £480,000 from the European Structural Funds. By the time construction started at the end of 2000, firm costs had been agreed with the Millennium Commission: forecast building costs were £2.1 million, plus £1.2 million to cover professional fees and fitting out with furniture and IT. The budget for equipment was a further £1.4 million. **Figures 16 and 17** set out the planned and actual funding for the Science Centre, together with the timetable.





Figure 16: Planned and actual funding for the Science Centre

Element	Source	Planned funding November 2000) £million	Actual funding £million
Building	Millennium Commission	1.64	1.62
	WDA	0.50	0.75
	ERDF	0.48	0.48
	Private sector	0.66	0.39
	<i>Total</i>	<i>3.28</i>	<i>3.24</i>
Equipment	Millennium Commission	0.7	0.00
	Private sector	0.7	0.00
	<i>Total</i>	<i>1.40</i>	<i>0.00</i>
Road	Millennium Commission	0.06	0.05
	Private Sector	0.06	0.05
	<i>Total</i>	<i>0.12</i>	<i>0.10</i>
<b>TOTALS</b>		<b>4.80</b>	<b>3.34</b>

Source: Wales Audit Office

Figure 17: The Science Centre – a timetable of funding

July 1996	Millennium Commission grant agreement in principle
March 1998	Total Science Centre – buildings and equipment – costed at £4.8 million
November 1999	WDA (£500,000) and WEPE (£480,000) agree to part fund incubator units building costs of £1.2 million within a Science Centre with an estimated overall building cost of £1.725 million
November 2000	Detailed breakdown of costs – £3.28 million for the building, including basic laboratory fittings, £1.4 million for specialist scientific equipment, £120,000 for a new access road within the Garden leading to the Science Centre
December 2000	Construction commences
March 2001	Recognising increased construction costs, WDA approve increase in funding from £500,000 to £750,000 and complete a 15-year Joint Venture agreement with the Garden
November 2001	WEFO agrees to provide £278,000 ERDF in revenue support for the operation of the BioTechnium
Summer 2002	The Garden decides that further capital works to improve the visitor attraction now take priority, and the equipment budget of £1.4 million is reduced to £1 million and later zero
August 2002	Construction of Science Building at a cost of £3.24 million, within budget but nine months later than forecast. The final contribution from the Millennium Commission towards the construction costs and the road amounted to £1.67 million
September 2002- February 2005	The Science Centre building remains unequipped and unoccupied. Expenditure has been incurred on recruitment and marketing (ERDF – £95,000 from the £278,000 revenue approved – the rest was not paid), and essential maintenance (WDA – an additional £16,000)

**3.9** In March 2001 the WDA approved an increase in incubator units funding of £250,000, taking its investment to £750,000, and completed a 15-year Joint Venture agreement with the Garden. Originally drafted in 1999 and signed in March 2001 the Joint Venture Agreement covers, amongst other things:

- a** control and management of the development: for example, although these matters remained with the Garden, the WDA's prior approval was required concerning the extent of the works, timescale and cost;
- b** limiting grant commitment to £750,000; and
- c** the WDA's entitlement to 33 per cent of gross return in any year, an increase from 29 per cent in the original plan, reflecting the WDA's higher contribution.

**3.10** The view of the Garden and the WDA was that, to provide the right environment for success, the Garden's in-house scientific facility needed to be up and running before the incubator units were occupied. However as noted in Part 1, as early as October 2000, and before building on the Science Centre had started, the Garden was seeking assistance from the Assembly Government to fund its own science programme because internally generated funds would no longer be sufficient. By 2001 the Garden was requesting £750,000 a year over three years to fund both the science and education programmes, and these requests continued throughout 2001.

**3.11** In August 2002, nine months later than originally planned but within the revised budget, the building was constructed although some snagging problems are still to be resolved. By then the Garden had reduced its £1.4 million budget for scientific equipment for its research team to £1 million because further capital works

to improve the visitor attraction, in its opinion, took priority. In late 2004 this budget was reduced to zero. The lack of a functioning in-house research facility potentially made the incubator units less attractive to potential customers. The Millennium Commission, for its part, had grant supported the works on the visitor attraction and no longer had any significant grant funds available to further fund scientific equipment.

**3.12** In 2002, by which time its financial position had worsened considerably, the Garden approached the WDA to take over leasehold ownership of the whole centre, including responsibility for running the incubator units element. By this point the incubator unit facility had been named as the "BioTechnium" as it was seen by the WDA and the Garden as becoming part of the concept of a network of Techniums throughout Wales (see Box), rather than a core activity of the Garden. The Garden proposed that the WDA rent back to the Garden the parts of the building it needed to carry out its own research.

### The Technium Concept

The Technium project involves providing infrastructure and support services for embryonic high-technology business ventures. It focuses on commercial exploitation of new ideas through research and development. The concept was initiated by the WDA and the University of Wales, Swansea.

There are currently eight active Technium centres with varied specialities, including opto-electronics, digital media, and IT/ Software. In each centre, new and young enterprises occupy "incubator" units with cutting edge high bandwidth communication facilities. They receive support from a team of business and technical support staff and enjoy access to specialist laboratory facilities and communal networking areas. Incubator units will be



recycled; companies will move to new premises when they mature and be replaced by new ones. Under current plans, by 2006-07 the Technium network will have secured around £150 million to deliver a planned total of 12 separate Technium sites with the capacity to house up to 200 companies and employ 1,300 people in high quality jobs.

### The BioTechnium

In November 1999, a KPMG report for the Garden about the BioTechnium envisaged start-ups typically taking one to three years in the incubator before graduating to their own premises. In the view of the Garden and the WDA, the success of such an enterprise at the Garden also depended on the attraction generated from an established internal research team and from direct marketing and support staff provided by the Garden.

**3.13** The WDA, for its part, remains committed to the project due to the economic potential and the high quality jobs that a successful project would create. It is considering all options, including taking over the BioTechnium element, if other options, such as private sector management, are not practical. However, after more than two years of consideration and negotiation, a transfer has not materialised. Reasons include:

- a** as noted in Parts 1 and 2, the Garden has a complex structure of ownership for its assets, involving its own long term creditors and the public bodies that have grant aided the facility. All need to authorise any transfer of ownership whilst protecting their own interests and conforming, in the case of the public grants, with their own differing clawback rules;
- b** although funds may have been forthcoming from the WDA's own budget for initial basic

running costs, the issue of scientific equipment funding and meeting deficits during the start-up years has not yet been resolved; and

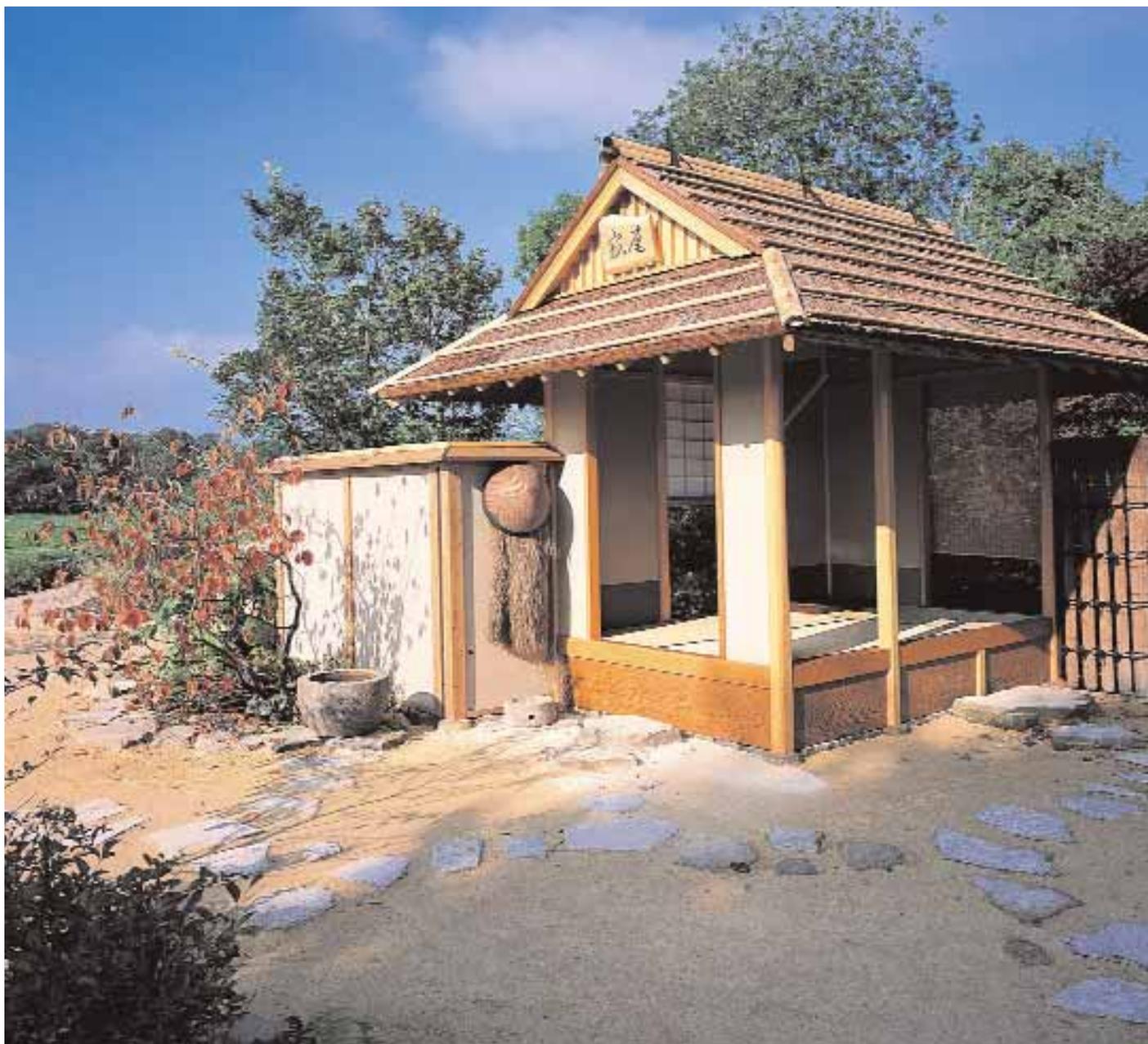
- c** the Garden's inability to fund its own research organisation constrains the potential success of a BioTechnium.

In the event, the priority given to seeking a recovery programme for the Garden's visitor attraction and the related halt of additional funding in late 2003 ended any prospect of an immediate solution.

- 3.14** Both before and after the completion of the Science Centre building, several expressions of interest had been received, and inspections undertaken, by companies interested in taking space in the BioTechnium. However, without a resolution of the ownership and funding arrangements, it has not proved possible to conclude any lettings.
- 3.15** Despite the Garden deciding in 2002 that it could no longer run the Science Centre and seeking a WDA take over, it went ahead with the initial appointment of management and marketing staff for the BioTechnium. As anticipated when WEFO approved the capital grant in 1999, it further agreed that the European Structural Funds would provide 54 per cent of the start up costs of the BioTechnium. As a result, WEFO grant aided £95,000 of eligible expenditure in 2002 and 2003 before this element of support was cancelled.
- 3.16** In providing funding for the BioTechnium, both the WDA and WEFO were looking to nurture new business and create jobs: both sought the creation of 51 direct jobs, the safeguarding of 24 jobs and 100 per cent occupancy after three years. In addition, through the Joint Venture, the WDA was seeking a return on its investment.

In the absence of an operational BioTechnium, none of these objectives has been met. In the meantime the Science Centre is not yet able to be occupied. Since completion there has been need of some repair to its roof and problems with heating. The WDA agreed to fund 100 per cent of the maintenance expenditure incurred by the Garden on the Science Centre between October 2004 and March 2005, some £16,000, with a

view to protecting the Technium name and image, safeguarding earlier investment and preserving the opportunity of successful future resolution. The WDA has received a full report on the building's condition and will be meeting the original management contractor for the building with a view to agreeing the work to be done.





## Appendix 1: Timeline

<b>1990</b>	First “concept appraisal” for a Botanic Garden at Middleton
<b>1991</b>	Feasibility study by sponsors
<b>1993</b>	Welsh Office sponsor Eres feasibility study looking at four potential sites, including Middleton; decide not to fund any botanic garden in Wales
<b>1995</b>	Garden submits bid to Millennium Commission
<b>1996 - February</b>	Millennium Commission announces intention, subject to further negotiation, to fund the Garden
<b>1996 - 2000</b>	Garden raises most of the match funding needed; funding sources include European Regional Development Fund, the Tourist Board, and the WDA
<b>2000 - April</b>	Garden has £1.4 million shortfall to match fund Millennium Commission money; approaches Assembly Government for £1 million, in June gets £500,000 routed through the Tourist Board
<b>2000 - May</b>	Garden enters leaseback deal with Lombard Bank, providing £1.8 million to match fund Millennium Commission
<b>2000 - May</b>	Garden opens to the public
<b>2000 - October</b>	Garden approaches Assembly Government for £1.2 million in revenue funding over two years, to support its science and education programmes: request turned down in February 2001
<b>2001 - May</b>	Garden approaches Assembly’s Economic Development Committee for £622,000 annual revenue support; request passed on and rejected
<b>2001 - July</b>	Garden approaches WDA and Tourist Board for extra funding; rejected because of a lack of detail and costings. Garden also approaches Minister for Culture, Sport and the Welsh Language for £1.7 million to match fund Millennium Commission money, and £750,000 revenue support; rejected
<b>2002 - January</b>	Garden submits bid to Assembly Government for £2.15 million for capital works and repeats request for £750,000: rejected. Assembly Government takes more active role: provides limited financial support to stave off liquidation, and brings together key public sector funders in monthly meetings
<b>2002 - July</b>	Assembly Government provides £360,000 funding on the condition that Tourist Board attend Trustee meetings as observers and that KPMG review Garden’s financial viability – moratorium on new capital funding from Assembly Government and sponsored bodies until KPMG report
<b>2002 - December</b>	KPMG report published, concluding Garden needs immediate cash injection and will need public subsidy in perpetuity
<b>2003 - February</b>	Assembly Government provides Garden with a further £1.06 million to survive for 6 months, on the condition that the Garden produces a new business plan in 6 months outlining how it will be self-sustaining
<b>2003 - May</b>	Garden submits revised business plan, which Assembly Government rejects in September
<b>2003 - November</b>	Garden submits Recovery Strategy, which Assembly Government rejects in December
<b>2004 - March</b>	After substantial negotiations, the Assembly Government, Millennium Commission, and Carmarthenshire County Council agree a funding package based on a reworking of the Recovery Strategy by Price Waterhouse Cooper LLP, with each providing £300,000 and the Assembly Government providing an extra £150,000 annually for four years.

## Appendix 2: Changes to the Garden's Business Plans

	Forecast Visitor Numbers				
Plan	2000	2001	2002	2003	2004
September 1995	100	140	160	190	200
May 1996	100	140	160	190	200
August 1997	125	150	175	200	200
March 1998	150	175	200	225	250
October 1998	175	200	225	250	250

	Predicted Spend per Visitor (£)				
Plan	2000	2001	2002	2003	2004
September 1995	6.00	6.50	6.50	7.50	7.50
May 1996	6.00	6.50	6.50	7.50	7.50
August 1997	6.00	6.50	6.50	7.50	7.50
March 1998	8.32	8.32	8.32	8.32	8.32
October 1998	8.32	8.32	8.32	8.32	8.32

	Predicted Visitor Income (£)				
Plan	2000	2001	2002	2003	2004
September 1995	600	910	1,040	1,425	1,500
May 1996	600	910	1,040	1,425	1,500
August 1997	750	975	1,138	1,500	1,500
March 1998	1,248	1,456	1,664	1,872	2,080
October 1998	1,456	1,664	1,872	2,080	2,080

	Total Income (excluding science) (£000)				
Plan	2000	2001	2002	2003	2004
September 1995	665	1,000	1,215	1,691	1,825
May 1996	730	1,071	1,292	1,767	1,902
August 1997	880	1,136	1,389	1,842	1,902
March 1998	1,335	1,568	1,881	2,189	2,467
October 1998	1,601	1,839	2,158	2,466	2,546



	Cost of Sales, per visitor (£)				
Plan	2000	2001	2002	2003	2004
September 1995	1.37	1.46	1.46	1.61	1.61
May 1996	1.37	1.46	1.46	1.61	1.61
August 1997	1.37	1.46	1.45	1.61	1.61
March 1998	3.25	3.25	3.25	3.25	3.25
October 1998	3.24	3.25	3.25	3.25	3.25

	Predicted Income after cost of sales (excluding science) (£000)				
Plan	2000	2001	2002	2003	2004
September 1995	527	796	983	1,285	1,503
May 1996	593	867	1,059	1,461	1,580
August 1997	709	917	1,135	1,520	1,580
March 1998	848	1,000	1,232	1,459	1,655
October 1998	1,033	1,189	1,427	1,654	1,734

	Predicted Expenditure (excluding science) (£000)				
Plan	2000	2001	2002	2003	2004
September 1995	971	999	1,017	1,035	1,005
May 1996	1,064	1,102	1,130	1,154	1,124
August 1997	1,074	1,112	1,140	1,164	1,134
March 1998	1,059	1,280	1,300	1,316	1,326
October 1998	1,058	1,205	1,375	1,266	1,376

	Staff costs (excluding science) (£000)				
Plan	2000	2001	2002	2003	2004
September 1995	536	544	552	560	540
May 1996	619	627	635	643	623
August 1997	629	637	645	653	633
March 1998	613	804	804	804	804
October 1998	613	804	804	804	804

	<b>Predicted Surplus (before science) (£000)</b>				
<b>Plan</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
<b>September 1995</b>	-444	-203	-34	350	498
<b>May 1996</b>	471	235	-71	306	455
<b>August 1997</b>	-366	-195	-6	355	445
<b>March 1998</b>	-211	-280	-68	143	329
<b>October 1998</b>	-444	-193	-4	400	558

	<b>Predicted Surplus (after science) (£000)</b>				
<b>Plan</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
<b>September 1995</b>	-738	-487	-298	106	314
<b>May 1996</b>	-715	-469	-285	112	321
<b>August 1997</b>	-610	-429	-220	161	311
<b>March 1998*</b>	-211	-280	-68	143	329
<b>October 1998</b>	-209	-347	-110	256	276

\* the March 1998 business plan did not include costs for science as it was forecast to be self-financing from separate revenue sources



## Appendix 3: Planned phasing of the Garden project

Phase 1	Phase 2
<ul style="list-style-type: none"> <li>■ Visitor arrival point and gatehouse;</li> <li>■ Spinal board walk to the Great Glass House</li> <li>■ Great Glass House</li> <li>■ Lakes and dams restoration</li> <li>■ Lakeside laboratory</li> <li>■ Renovation of Trawscoed Energy Centre</li> <li>■ Greenhouse and nursery facilities</li> <li>■ Limited wider landscaping and infrastructure works</li> </ul>	<ul style="list-style-type: none"> <li>■ Cascades*</li> <li>■ Bioscope</li> <li>■ Walled gardens</li> <li>■ Welsh habitats</li> <li>■ Middleton square and woods</li> <li>■ Arboretum and park wide landscaping</li> <li>■ Infrastructure works</li> <li>■ Double Walled Garden **</li> <li>■ Landscaping **</li> <li>■ Horticulture facilities **</li> <li>■ Science facilities **</li> </ul>

\* The Cascades – a series of small stepped waterfalls which formed part of the historic Middleton estate – have not actually been constructed.

\*\* In 1999, the Garden further split Phase 2, with those items marked with a \*\* being shifted to Phase 3. Further works have been carried out since 2004 as part of Phase 4, including extra work on the double walled garden.

## Appendix 4: Letter from the Chairman of the Garden

Jeremy Colman  
Auditor General  
Wales Audit Office  
Deri House  
2-4 Park Grove  
Cardiff  
CF10 3PA

14 November 2005

Dear Mr Colman

### Introduction

- 1.** The creation and development of The National Botanic Garden of Wales “NBGW” is an ambitious and visionary project, presenting significant and exciting opportunities for Wales. It is the first national botanic garden of the new millennium and the first to be created in the UK for almost two centuries. It has also presented considerable challenges to the Trustees and to the public sector partners, principally in Wales, which from the outset have worked in close collaboration towards a common vision.
- 2.** Worldwide, botanic gardens now play major roles in science, horticulture, education, culture and tourism. Increasingly, over the last few decades, they have also become important centres for biodiversity and conservation, playing a role in integrating conservation and sustainable development and working collaboratively to achieve key international strategies.
- 3.** The creation of NBGW coincides with a growing recognition that biological diversity is a global asset of key importance to present and future generations. Plants are recognised as a vital part of the world’s natural heritage and an essential resource for the planet. They are a key component of global sustainability. It also coincides with the emergence of a confident, outward-looking Wales, with a National Assembly committed to sustainable development.
- 4.** It is a precious opportunity for Wales to be the home for creating a world-class 21st Century national botanic garden incorporating such key international objectives. The tangible benefits of NBGW on a local and regional basis (economic, cultural, tourism, educational, scientific, etc) are significant and clearly identifiable, and are recognised by both public and private sector funders.



## Public sector support for the NBGW

5. The support of the public sector has been clear throughout and remains strong as demonstrated by the close partnership which continues and has indeed recently been significantly strengthened with the Welsh Assembly Government (“WAG”). The NBGW has received significant assistance, financially and in other forms, from the public sector, ranging from pre-project studies commissioned and supported by Carmarthenshire County Council (“CCC”), the Welsh Office, the Welsh Development Agency (“WDA”) and the Wales Tourist Board (“WTB”) to the current publicly announced support from WAG, CCC and the Millennium Commission “MC”. The support of the public sector at the embryonic stage provided the newly formed Trust with considerable reassurance in proceeding with its Millennium grant applications, which depended on demonstrating the viability of NBGW. It is a testament to the vision and determination of a number of organisations that the NBGW has been created, is currently viable and continues to develop.

## The Board of Trustees

6. Trustees see it as their principal responsibility to ensure the highest standards of corporate governance, putting in management and systems to ensure the mission of the Garden is achieved and the risks are properly accounted for and mitigated. Throughout the course of the project, from inception to current times, the Trustees have adopted best practice in corporate governance, as has been recognised by the Charity Commission and the Millennium Commission.

## Risk Management

7. The Trustees have throughout commissioned reputable experts to research and advise upon key aspects of the Garden’s development, including, amongst others, KPMG, Stevens and Associates, Ilex Leisure, Hall Aitken and Associates and PricewaterhouseCoopers. Extensive audits have been undertaken both by the Garden itself appointing independent and reputable auditors and by public sector auditors for each grant, including the European Court of Auditors, with no substantive issues identified. Each of the NBGW business plans considered in the Wales Audit Office report is attributable to such expert advice (see the attached schedule). The Trustees considered such advice in the context of the NBGW’s development and operation and used it to support their applications to funding bodies for match funding. Various funding bodies reviewed the advice provided, and the Trustees gained further reassurance from these funders’ acceptance of the advice and assessment of its appropriateness.
8. Key to the business plans and forecasts has been an assessment of potential revenue for the project, with extensive professional advice commissioned on how the content of the NBGW should be developed and the consequential impact on visitor numbers - for example, the increase in visitor number forecasts in 1998 was based on the specific advice of Hall Aitken and Associates and Stevens and Associates, prominent leisure consultants with over 30 years experience, and was reviewed by KPMG in their assessment of the forecasts.
9. Extensive efforts have been made at each stage of development to identify and manage risks, with comprehensive risk management exercises at each key stage of the project undertaken by request of the Millennium Commission and facilitated by KPMG. Major risks identified from these exercises were:-

**9.1** *Could the NBGW be created on time and on budget?*

The opening of the NBGW was achieved on time and on budget, a major success for a project of its magnitude.

**9.2** *Would the Trustees be able to raise match funding of some £21.6m to match the equivalent amount secured from the Millennium Commission?*

Through an extensive fundraising effort match funds of £21.5m were secured in addition to the £21.7m from the Millennium Commission, with considerable success (above original forecasts) in leveraging significant private investment of £9m into the project.

**9.3** *Would the income from the visitor attraction underpin its longer-term commercial viability?*

**9.3.1** In terms of visitor numbers NBGW immediately established itself as one of the most visited attractions in Wales, with visitor numbers exceeding forecasts. However, a number of events which had not been taken into account by the various experts and could not be factored into their forecasts took place, including the impact of foot and mouth disease, which included closure of NBGW for a short period and the potential impact of free entry to museums.

**9.3.2** Such factors as these led to lower income, with a relatively fixed overhead cost which was considered minimal by KMPG in the evaluation of NBGW commissioned by the WAG in 2002. The short term revenue support from the Welsh Assembly Government of 2002 and 2003 was consequently vital to ensure the continuation of the development of the NBGW, and WAG's support and intervention was greatly welcomed. However, in September 2003 the NBGW was informed that the WAG would not provide further short term revenue funding. This was a considerable test to the commitment of all involved in NBGW.

**9.4** *Would separate funding be available to develop and expand the science and education programmes, which are intrinsic to the Botanic Garden's mission?*

**9.4.1** A further key issue for the Trustees was and remains the development of appropriate science and education programmes, which are core to our charitable objectives. It was of considerable concern that in reviewing a way forward for The National Botanic Garden of Wales these became excluded from 2002 onwards in discussions with the WAG. Before the NBGW opened it was apparent that visitor income alone could not sustain substantive science and education programmes, akin to those of the vast majority of national botanic gardens. This concern was crystallised in 1999 and immediately discussed with our funding partners and highlighted to the National Assembly of Wales.

**9.4.2** The support of the Economic Development Committee and Culture Committee of the National Assembly of Wales for the Garden to receive funding was of significant importance to the Trustees. Considerable investment has continued for our education programme, which has yielded significant benefits and gained wide recognition, resulting in the resurgence of confidence on the part of educational establishments and the public in the education programme provided.



## Current position

- 10.** It is a testament to the determination and effort of my fellow Trustees, staff, volunteers, supporters and the public of Wales and beyond that during this extremely difficult financial period between 2003-2004, when the threat of liquidation was real, NBGW survived and has subsequently been able to prosper. It is also a testament to the clear commitment and support of our stakeholders for the vision of NBGW and its importance to Wales that further funding was forthcoming.
- 11.** In 2004 a Recovery Plan was put in place, agreed with all major stakeholders, which has been pursued with diligence. A further injection of funding was received in 2004 from the Welsh Assembly Government, Carmarthenshire County Council and the Millennium Commission.

Given this support, dedication and commitment the trading position of NBGW has improved significantly. Highlights include:-

- Bottom line forecast exceeded by 16% for 2004/05, a trend continuing for 2005/06.
- £470,000 of further private sector funding secured for specific capital enhancements.
- Visitor number targets exceeded by 13% in 2004/05, with a year-on-year improvement for 2005/06 of 24%.
- Year-on-year favourable trading improvement of 55% (£518,000) for 2004/05 and a further year-on-year improvement of £226,000 to 31st August 2005 (net surplus of £120k vs £104k deficit).
- Market research provides evidence of 94% of visitors being satisfied or very satisfied with their experience of visiting NBGW
- Continued to deliver the education programme, with strengthened partnerships with CCC, Coleg Sir Gâr and other education providers and with usage exceeding forecast by 72%.
- Continued to deliver many key policy objectives of stakeholders, e.g. Tir Gofal, Biodiversity Action Plans, etc.
- Continued to deliver conservation research on rare and endangered Welsh plants, supported by private funding.

## BioTechnium

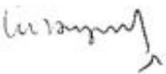
- 12.** The BioTechnium, considered as a key node of the Technium network, was progressed with the full support of the WDA as joint venture partners following feasibility studies undertaken by KPMG, funded and commented upon by the WDA. We were encouraged by the pragmatic approach of the WDA in their support to the BioTechnium, a close partnership which continues. We were indeed grateful to the WDA for their commitment to take lead responsibility for resourcing and driving the project forward as

communicated to the Millennium Commission and Welsh European Funding Office in early 2003 and are further encouraged by the continued commitment of the WDA and other stakeholders in the project. Recent developments provide renewed confidence that this important element will be delivered successfully in partnership.

## The future

13. Despite the complex nature of the project and relatively short timescales much has been achieved in ensuring strong foundations for a national institution which will provide continuing benefits for the long term. Despite changing circumstances and unforeseen external factors the current financial position of the Trust exceeds original forecasts on which the project was progressed. Firm and agreed plans are in place for the medium term, ensuring financial sustainability, with NBGW and stakeholders working closely to deliver these. The business plan of 2004-2009 is successfully being delivered. Financial trading targets and key milestones have been met or exceeded with income and visitor numbers above forecast and overheads being controlled within budget. In recognition of the importance of the National Botanic Garden of Wales and its objectives, including biodiversity and the sustainable agenda, further funds have been secured from the Millennium Commission and the private sector.
14. With the continuing support and close collaboration of our stakeholders, the strength of the vision for NBGW, realistic resources and the support of the public of Wales and beyond we are confident that NBGW will fulfil its potential and meet its objectives in full. It is a key national asset in which all should feel pride, and a legacy of the Millennium for this and, most importantly, future generations.

Alan Hayward



Chairman

The National Botanic Garden of Wales



## Summary of professional advice for Business Plans and audits for The National Botanic Garden of Wales

The summary below provides some information on the extensive professional advice commissioned by reputable experts to research and advise upon key aspects of the Garden's business plans as referred to

in the Welsh Audit Office report. It does not highlight the extensive input of third party organisations and funders into business plans. A summary of the audits undertaken for identified projects funded by the Welsh Funders is also provided for which no substantive issues have ever been identified and grant payments received in full.

### Professional advice

Business plan	Professional advisors	Advice provided
September 1995	Ilex Leisure	Visitor numbers and income, marketing budgets
	KPMG	Financial
	Symonds	Cost planning (capital)
May 1996	Ilex Leisure	Visitor numbers and income, marketing budgets
	KPMG	Financial
	Symonds	Cost planning (capital)
	Colvin & Moggridge	Horticultural overheads
	Fordnham & Partners	Facilities and maintenance overheads
August 1997	Ilex Leisure	Visitor numbers and income, marketing budgets
	KPMG	Financial
	Symonds	Cost planning (capital)
	Colvin & Moggridge	Horticultural overheads
	Max Fordnham & Partners	Facilities and maintenance overheads
March 1998	Hall Aitken and Associates	Business plan including detailed market context to establish visitor numbers and income
	Symonds Group	Cost planning (capital)
October 1998	Stevens and Associates	Visitor numbers and income
	KPMG	Financial
<i>October 1998 further supported by</i>		
30th March 1999	Stevens and Associates	Business plan review
27 July 1999	KPMG	Business plan appraisal
Recovery Plan 2004	Appraisal	PriceWaterHouseCoopers

## Audits and Project Monitoring for Welsh Funders

Projects	Grant £000's	Audit certificate issued by	Other Audit visits etc
<b>European Regional Development Fund</b>			
ISW (94-96) Welsh Office : 52512001	3670	Price Waterhouse KPMG	European Court of Auditors (April 1999)
ISW (97-99) Welsh Office ref: 51008	1800	Issued annually by KPMG	Mazars audit acting on behalf of European Commission (May 2004)
ISW (97-99) Welsh Office ref: 51798	210	Issued annually by KPMG	
ISW (97-99) Welsh Office ref: 52275		Issued annually by KPMG	WEFO audit team (2002)
Objective 1 ref: 47027001	95	Issued annually by KPMG	
<b>Wales Tourist Board</b>			
Project no. 40018 (97-99)	310	Price Waterhouse KPMG	Relevant documents made available to WTB at site visits including invoices, trade contract payment, certificates issued by Schal (project manager) and certified by Symonds Group (QS) and bank statements
Investment Support Scheme Project no. S4/55479	400	Issued with each claim by KPMG	All original invoices and valuations sent to WTB for inspection. Invoices returned duly stamped by WTB
Project no. 55470	400	Issued with each claim by KPMG	All original invoices and valuations sent to WTB for inspection. Invoices returned duly stamped by WTB
Investment Support Scheme No. S4/55479	100	Issued with each claim by KPMG	All original invoices and valuations sent to WTB for inspection. Invoices returned duly stamped by WTB
<b>Welsh Development Agency</b>			
Rural Programme (95-96)	132		Grant claim and associated expenditure incurred by Dyfed County Council
Rural Programme (96-97)	125		Project reports submitted to the Millennium Commission made available to WDA together with other relevant information
Rural Programme (97-98)	750		Project reports submitted to the Millennium Commission made available to WDA together with other relevant information. Invoices and trade contract payment certificates supplied
Rural programme 98-99	376		Project reports submitted to the Millennium Commission made available to WDA together with other relevant information. Invoices and trade contract payment certificates supplied
Joint venture agreement 2001	750		Copy invoices supplied with grant claim by NBGW. WDA regular site visits and attendance at project meetings
Technology Budget	21		Copy of invoices supplied with grant claim